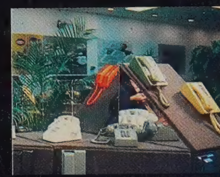
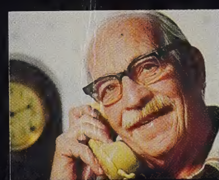
Bell Canada
Annual Report 1979



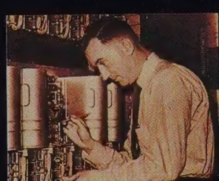




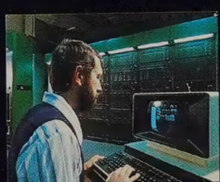
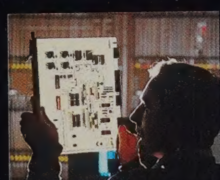





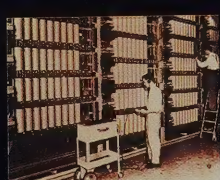











1980 Annual Meeting
The Annual and Special General Meeting of the Shareholders will take place at 2:00 p.m., Thursday, April 17, 1980 in the Convention Centre of the Harbour Castle Hilton Hotel, Toronto.

Form 10-K
Bell Canada's Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:
The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

Sur demande, le secrétaire de la compagnie vous fera volontiers parvenir un exemplaire français du rapport annuel.

Bell Canada
Executive Offices
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

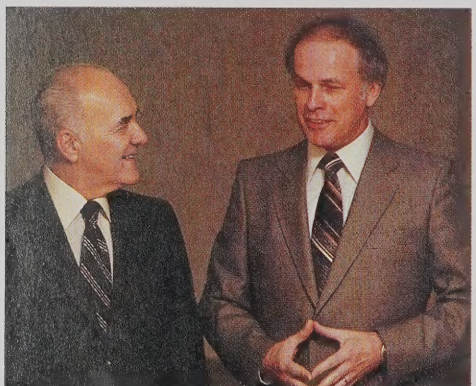
Financial Highlights

All figures in Canadian dollars		Thousands of dollars except per share amounts		
		1979	1978	% Increase
Consolidated	Earnings per common share† (before extraordinary items)	$ 2.64	$ 2.49	6.0
	Total revenues	$5,264,739	$4,374,355	20.4
	Income before extraordinary items	$ 433,186	$ 370,562	16.9
	Net income	$ 433,186	$ 395,052	9.7
Non-Consolidated	Earnings per common share† (before extraordinary item)	$ 2.13	$ 1.96	8.7
	Total revenues	$3,136,903	$2,683,083	16.9
	Income before extraordinary item	$ 355,810	$ 300,817	18.3
	Net income	$ 385,645	$ 304,939	26.5
	Rate of return on average common equity (before extraordinary item)	11.51%	11.09%	—
	Capital expenditures	$1,116,743	$1,003,672	11.3

†Reflects the three-for-one common share subdivision.

Contents

Orland Tropea and J. V. Raymond Cyr



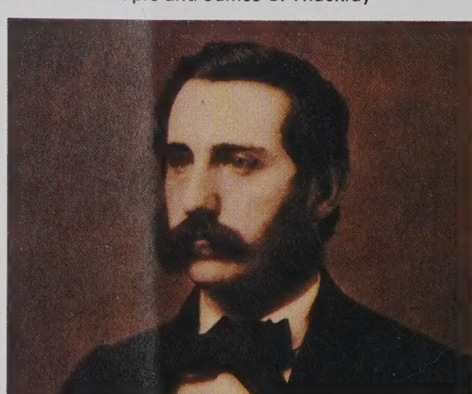
Frederick E. Ibey and Léonce Montambault

Gordon E. Inns

A. J. de Grandpré and James C. Thackray

Charles Fleetford Sise is regarded as the company's founder and guiding force in its formative years. At the start, in 1880, the company had 150 employees, 2,100 telephones and $403,324.37 in assets. Today Bell Canada alone has 56,000 employees, well over nine million telephones and $11 billion in assets.

Under the direction of A. J. de Grandpré, Chairman, a team approach is applied to ensure that the diverse elements of this vast operation work efficiently as a unit. Other members of the senior management team include James C. Thackray, President; Orland Tropea, Executive Vice-President (Corporate); J. V. Raymond Cyr, Executive Vice-President (Administration); Frederick E. Ibey, Executive Vice-President (Operations); Léonce Montambault, Executive Vice-President (Québec Region); and Gordon E. Inns, Executive Vice-President (Ontario Region).



Charles Fleetford Sise

Letter to Shareholders

As 1980 begins, Bell Canada is on the threshold of a new year, a new decade and a new century. This is an appropriate time to scan the past, assess the present and cast an enquiring eye to the future.

A hundred years ago, not even the agile mind of Alexander Graham Bell could have foreseen what the telephone would mean to a young and growing Canada. From its inception, the telephone has had a profound influence on the nation's social life and economic development.

Canadians, in turn, have shown a special aptitude and talent for invention and innovation in the field of telecommunications. To cite just two relatively recent examples: In 1972 Telesat Canada placed in operation the world's first synchronous domestic communications satellite, Anik I. A year later the member companies of the TransCanada Telephone System introduced Dataroute, the world's first nationwide digital data service.

Bell Canada's own expertise is now recognized around the world to the point that its consulting services are in demand on five continents.

As the special section of this report on page 15 makes clear, the evolution of Bell Canada has been a creative process, and it didn't just happen.

A key factor in Canada's success in telecommunications has been the close relationship of service, manufacturing and research and development (R&D) in the integrated structure that links Bell Canada, Northern Telecom and Bell-Northern Research (BNR).

Typical examples can be found in the highly successful products marketed by Northern Telecom in the field of electronic switching, such as the SP-1 and the more recent DMS family of digital switchers. In their development, Bell contributed the customer-oriented experience, BNR translated it into practical designs and Northern Telecom developed and built the systems. These Canadian innovations which have earned widespread acceptance at home and abroad, have done much to establish Northern Telecom's reputation in the North American and international markets. In the process, they have produced jobs in Canada, helped in maintaining a positive balance of trade for the telecommunications sector and produced substantial tax revenues for governments in this country.

Today, reliable telephone service is available virtually everywhere in Bell's territory, including the Far North. In communities like Frobisher Bay, near the Arctic Circle, technology has been adapted to the northern environment; the satellite and other sophisticated equipment are giving Bell's customers in remote areas a level of service comparable to that experienced by other residents in Ontario and Québec.

In 1980, as in 1880, research is opening new frontiers and, although forecasting is always an uncertain business, we are unquestionably on the brink of significant changes in our ways of communicating. Fibre optics, a new technology now just in its infancy, is bound to revolutionize the logistics and techniques of telecommunications in Canada.

More powerful satellites and smaller earth stations will permit direct transmission into homes. New switching, signalling and transmission methods will facilitate a vast range of communications services of all kinds, in homes and offices alike.

Electronic chips, today the heart of pocket calculators and automatic cameras, will make it possible to build intelligence into all kinds of tools and machines in the future.

In all of this, the hardware may be fascinating but it's the software, or programming, that counts. In the 1980s software will gain predominance.

It has been estimated that up to half of all the jobs in our contemporary society are now filled by "knowledge workers"—those whose functions involve the creation, handling, assembly, retrieval, interpretation or implementation of information. This underlines the gravity of one of the most critical problems facing industry today: to date, technological advances have done little to enable these information workers to improve their productivity, which has been increasing at only one-twentieth the rate of improvement of production workers.

Both Bell Canada and Northern Telecom are making major investments of their resources in a concept designed to meet this problem. Northern Telecom uses the term the "Intelligent Universe" to describe this concept, which embraces a full range of information systems linked electronically by intelligent networks to produce the office of the future, the home of the future and other integrated information systems.

In this universe, information in the form of voice, data or images enters the network through multifunctional systems based on data terminals, computers, word-processing and graphics-reproducing equipment, and electronic telephones. In the network, intelligent switching and transmission systems electronically control the flow of information among users.

The full impact of the convergence of computers and telecommunications in the Intelligent Universe will begin to be felt in the 1980s. At home or at work, people will have an unprecedented ability to communicate and cope with vast amounts of complex information.

Already, the magic of word-processing is generating significant advances in the techniques of written communications, both within the user's own office and en route to external destinations. Not too distant is the prospect of direct machine conversion of the spoken word into written text.

In terms of marketing opportunities, the outlook is almost boundless. The main consumer obstacle to rapid development of this market is the natural resistance of people to major changes in their way of working. In time, the influence of younger employees, educated and trained in the new environment, will provide the needed catalyst.

In the home, a wide range of new types of communications services are here or on the horizon. New videotex home terminals may well serve as the fulcrum around which these services will develop. Information retrieval, all kinds of transactions, interactive TV, educational and entertainment programs are but a few of the opportunities, the number and scope of which are limited only by the imagination of the programmer.

A key question is whether enough people are willing to pay the price for these services in their homes to make them economically feasible. The answer, eventually, is almost certain to be yes; the solution paving the way to their feasibility will be found in a communications highway available at a reasonable price to any entrepreneurial programmer who needs it to deliver a service to interested customers.

This is the basis of the company's position that Bell Canada should be responsible, as the regulated common carrier, for providing this integrated communications highway throughout its territory. Satellites and fibre optics, exciting as they are as technological novelties, are essentially new and better tools for creating a more flexible and productive telecommunications highway.

In the immediate future, the impact on transportation economics of skyrocketing petroleum prices is bound to trigger, particularly in the business sector, a substantial

upsurge in consumer demand for telecommunications services. The use of real-time substitutes for actually "being there" is becoming increasingly attractive; the era of audio and video long-distance conferencing seems definitely at hand.

Canada's ability to preserve and enhance its position of leadership in the world of telecommunications in and beyond the 1980s will depend on a number of factors, not the least important of which is the political and regulatory environment in which the industry will be operating.

The regulatory climate in which Bell operates has gone through several distinct stages.

In the beginning there was competition. In 1880 a newspaper in Chatham, Ontario reported that the town was getting tangled up in the wires being strung across streets and over housetops by two telephone companies competing for business in the area.

This kind of rivalry lasted for a number of years, until it was realized that telephone service worked best when it was operated by a single company in a given area. Regulation had its genesis as a substitute for competition in a monopoly environment, and this is still its raison d'être.

There were real advantages in the regulated utility concept. Canadians have been well served by this system over the years.

Regulated monopoly made it possible to get on with the job of building an integrated system in which designs could be standardized and home-grown technology stimulated. It turned out to be an amazingly flexible system, in which new discoveries like electronic switches and fibre optics could be mixed compatibly with equipment installed fifty years earlier.

At the close of Bell Canada's first century, pressures are growing for more competition. The wheel has turned full cycle.

The present state of affairs is both uncertain and unsatisfactory. In fact, legally or otherwise, a good deal of competition already exists. What makes telephone companies vulnerable to it is a regulated rate structure that has developed over the years in which most prices bear little relationship to the actual costs of providing the service. The driving force behind this rate structure has always been the need to ensure that basic telephone service can be made available at low cost to all Canadians. The concept presupposed and relied on the fact that prices for other services, such as long distance, would make up the difference.

Under this system basic rates for local service, an everyday necessity, have been kept artificially low by the contributions from higher-priced options like extensions, the new "lifestyle" phones and long distance calls. The system is made to order for competitors out to get a profitable piece of the action without having to assume any of the common carrier's obligation to provide service on demand.

Terminal connection has become a major issue. In November, Bell Canada asked the Canadian Radio-television and Telecommunications Commission to determine if it is in the public interest to allow subscribers to connect their own telephones and other equipment to the company's facilities. If the CRTC decision, following public hearings, favours more competition, Bell will open its lines to the connection of terminal devices certified by the federal Department of Communications.

Among the issues which need to be examined by the Commission are the protection of service standards, Bell's continuing ability to plan and coordinate new technology and network improvements, the maintenance of customer-owned equipment, the impact of competition on Bell's revenues, deregulation of Bell's activities in the new competitive terminal market and measures to protect Canadian manufacturing jobs, balance of trade, R&D expenditures and technological sovereignty.

In the past, Bell Canada has been able to grow and make progress because regulatory objectives and procedures were clearly spelled out. Today they tend to be uncertain and somewhat contradictory.

It is becoming increasingly evident that the lack of clear national objectives for Canada's telecommunications industry is causing serious strains in the industry and in the regulatory process. Competition appears to be accepted in principle by both the federal government and our regulator, the CRTC, yet the criteria under which competitive services are to be provided are either unclear or non-existent. As a result, the ability of a regulated company like Bell to react to a changing world is seriously hampered. Of particular concern to the company have been the escalating information requirements and the costs associated with meeting the Commission's demands.

Already operating under the considerable weight of the basic regulatory process, Bell is additionally burdened by the activities of another federal body, the Restrictive Trade Practices Commission. At issue in the RTPC investigation, soon to enter its fourteenth year, is Bell's close relationship with Northern Telecom. In January the companies began presenting the case for vertical integration.

Over the years, few people have contributed as much to strengthening the relationship between the Bell group of companies as Robert C. Scrivener who retired as Chairman of Northern Telecom at the end of 1979. In his 42 years of service, first with Bell and since 1976 with Northern Telecom, Bob Scrivener's imagination, energy and resourcefulness have had a significant impact on the progress and success of both companies.

As we embark on our second century, it is a tribute to Bob Scrivener, to those who came before him and to those who comprise Bell Canada today, that our basic philosophy remains constant and clear:

— To provide a service of high quality at reasonable prices, consistent with fair treatment of our employees and an adequate return to our investors.

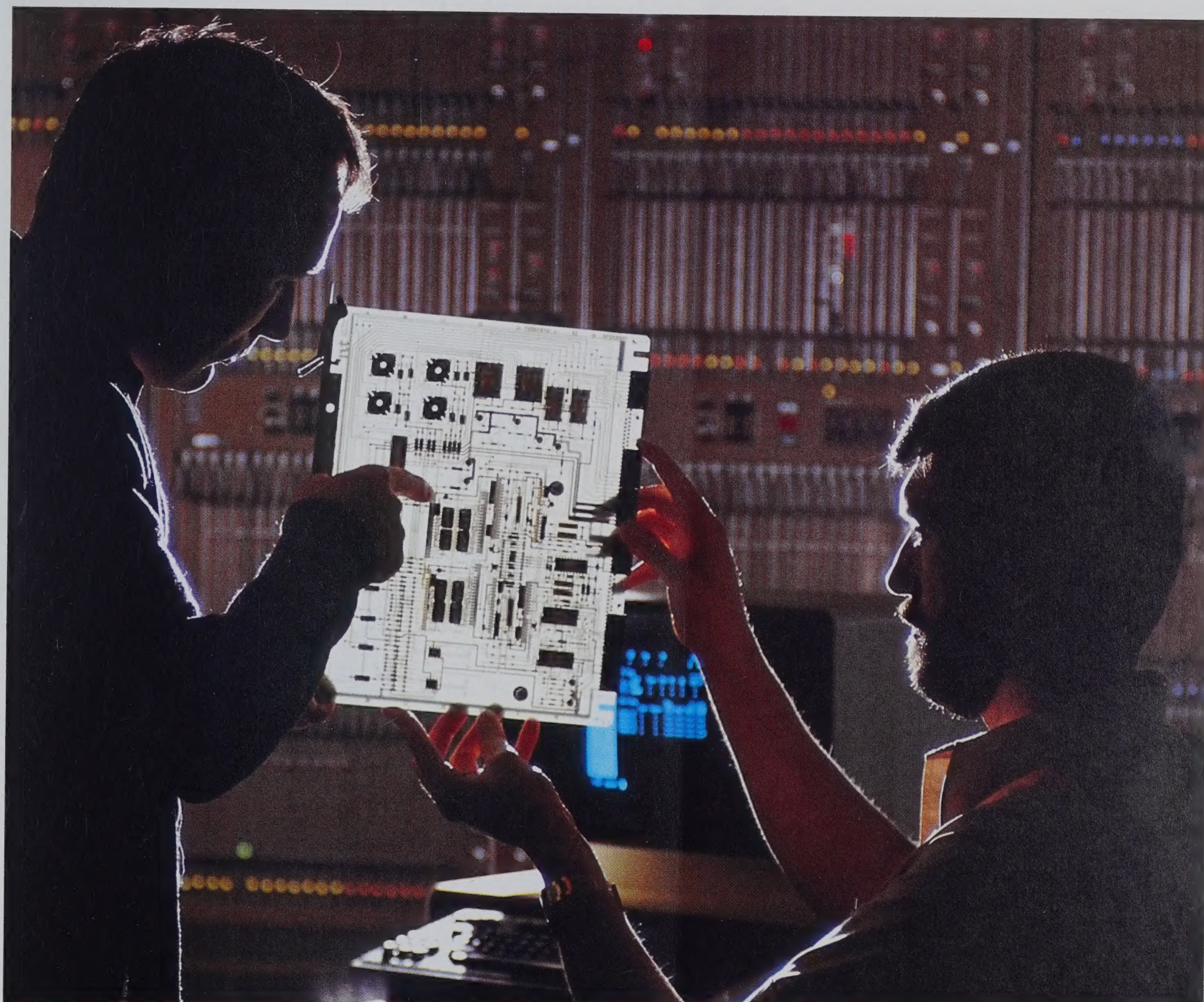
— To utilize our human, technological and financial resources in Canada and abroad in ways that will contribute to the social and economic progress of our country and its people.

— To develop and put to use new technologies, delivery systems and organizational arrangements to ensure the future prosperity of our business.

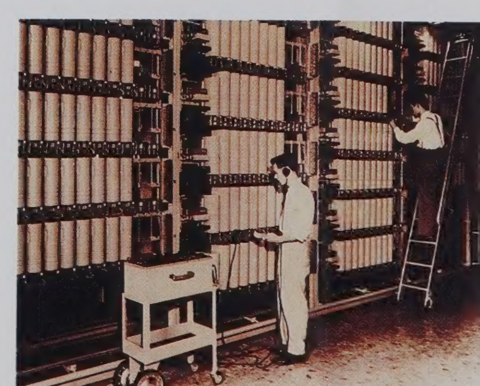
A. J. de Grandpré
Chairman of the Board

J. C. Thackray
President

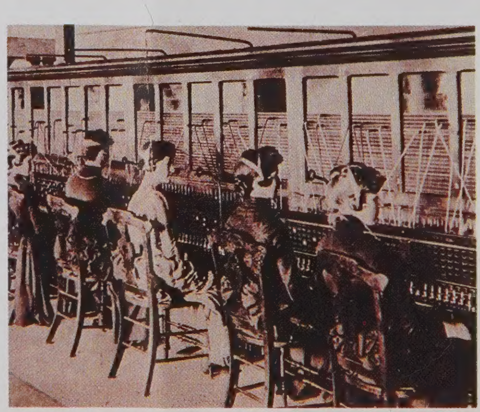
February 27, 1980



Innovation is constantly being made in telecommunications and yet the new technologies must be able to work effectively with the older. The modern DMS switching office, although compatible with the older step-by-step office, incorporates the latest in solid state and computer developments and provides much more switching capacity in much smaller space. Here Bell employees Iain Davidson and Don Dubreuil inspect a circuit pack in the DMS 200 office in Ottawa.



The telecommunications business is changing rapidly as new technologies are applied to effect service improvements and higher efficiency. Here the plug-in switchboard which has been standard in telecommunications since the start is gradually being replaced by the modern Traffic Operator Position System office. TOPS allows the operator to check details of a transaction on a television screen connected to a computer.



Review of Operations

Financial Results

Consolidated earnings per share showed a modest improvement in 1979, partly on the strength of international contract operations. The result also reflected a substantial increase in the number of common shares outstanding.

The slow growth of economic activity in Bell Canada's operating territory, combined with continuing inflation, seriously inhibited the rise in earnings from telecommunications operations. Expenses rose faster than revenues, particularly in the last quarter. At the same time the company had to deal with a large backlog of service orders accumulated during the strike of technicians. The growth in the volume of long distance calls was also slower than anticipated.

The major factor in the improvement in revenues from telecommunications services was the impact of higher rates, which were in effect for the full year compared with only four months of 1978. Expenses were up because of inflation, the growth in staff and wages, and depreciation costs resulting from increasing investment in plant.

Bell Canada's non-consolidated return on average common equity, before extraordinary item, for the year was 11.51 per cent, up slightly from the 11.09 per cent recorded in the previous year but still below the 12 per cent level deemed reasonable by the Canadian Radio-television and Telecommunications Commission.

In November an increase in the dividend on common shares was declared. The final 1979 quarterly dividend, payable January 15, 1980, was raised to $0.41 – an indicated annual rate of $1.64, an increase of $0.12 over the previous annual rate. In accordance with the company's policy of endeavoring to protect shareholders from the effects of inflation, this was the seventh consecutive year that the dividend rate has been increased.

Capital Expenditures

Bell Canada's capital expenditure program in 1979 reached the level of $1,116.7 million, compared to $1,003.7 million in 1978. This growth was almost entirely due to the effects of inflation.

The bulk of capital spending, approximately 65 per cent, was used to provide new service facilities and to relocate telephones for customers who had moved.

The company spent an estimated $184.3 million in 1979 as part of its extensive program to extend and improve service in non-urban areas. The capital costs of this program, which will exceed $700 million when it is completed in 1981, is an investment on which the company will not realize an appropriate return, thus placing a burden on the prices our customers pay for other services provided by Bell.

In 1979 Bell Canada connected 2.09 million telephones and disconnected 1.81 million for a net gain of 285,000 telephones. This means that approximately 14 telephones were moved for every new revenue-producing telephone added to the network. This churning continues to be a drain on the company's resources because installation charges are far from compensatory.

Bell Canada anticipates capital expenditures of approximately $1,266 million in 1980, up $149 million from 1979, with inflation again being an important factor.

Common Share Split

At the last Annual Meeting, held in Québec City on April 17, the shareholders approved a three-for-one subdivision of the company's common shares. The common shares were last split in 1948. The subdivision meant that one share of Bell Canada common stock, with a previous par value of $25, became three shares with a par value of $8⅓ each.

Financing

To meet the company's capital requirements, some $434 million was raised in the Canadian and European capital markets during 1979.

In February, one of the biggest public equity financings ever undertaken in Canada was completed successfully as Bell Canada made an offering of 3,125,000 pre-split common shares at a price of $63⅝ per share. It was Bell's first direct common share offering since 1966.

In September, Bell sold $175 million of debentures in Canada and $60 million in Europe. Series DG debentures, maturing in 25 years, were sold in Canada at an interest rate of 11 per cent. In Europe, series DH seven-year debentures were sold with an annual coupon rate of 10¾ per cent.

Northern Telecom Limited also completed a major financing in September, making a public offering of two million common shares in Canada and the United States at a price of $49.97 (U.S. $43.00) per share. Concurrently, Bell Canada purchased an additional two million common shares at the public offering price, in order to maintain its relative level of ownership in Northern Telecom. Bell now owns 54.5 per cent of the common shares of Northern Telecom.

During the year participation in Bell Canada's Shareholder Dividend Reinvestment and Stock Purchase Plan increased substantially, with 19.1 per cent of common shareholders, representing 22.6 per cent of common shares outstanding, enrolled in the plan as of January 16, 1980. Shares purchased by Québec residents through the plan after September 18, 1979, became eligible for inclusion in a Québec Stock Savings Plan.

Bell Canada warrants to purchase common shares of Northern Telecom from Bell Canada, dated November 19, 1974, were exercisable prior to December 1, 1979. Virtually all of these warrants were exercised.

Rate Relief Sought

On February 19, 1980, Bell Canada applied to the Canadian Radio-television and Telecommunications Commission (CRTC) for approval to revise its rates for service. It asked that approximately one-fifth of the level of the full increase (except for residence primary services) come into effect on an interim basis on May 1, 1980, and that the full increase be implemented on September 1. If granted, the new rates would provide additional revenue of $180 million in 1980 and $465 million in 1981.

The application points out that Bell Canada's basic operational objective is to meet demand for the broad range of its telecommunications services and that this objective can only be met if the company's ability to finance its construction program is maintained. During 1980 over $600 million must be raised externally. If this capital is to be obtained at a reasonable cost, investors must be satisfied that the company will achieve adequate earnings and maintain appropriate financial ratios.

Since the last rate adjustment in August, 1978, the company has experienced and is continuing to experience a severe increase in costs, while revenue increases have not been keeping pace. With inflation continuing at an annual rate of over nine per cent, the company is faced with increasing costs for labour, materials and capital. In keeping with the slow growth of economic activity in the company's operating territory, growth in total operating revenues in 1980 is not expected to keep pace with these increasing costs at present rates.

In its application the company proposes that 50 per cent of total net income from its Saudi Arabia contract should be taken into account in calculating the rate of return on average common equity for regulatory purposes. In accordance with a previous CRTC ruling, 100 per cent of the net revenues has been taken into account for regulatory purposes for the years 1978 and 1979. The company proposes that the benefits from the Saudi Arabia contract should be shared equally by the shareholders and the subscribers.

The company considers that the 12 per cent rate of return on common equity earlier found to be reasonable by the CRTC is inadequate in the economic and financial circumstances in which the company finds itself; however, the company is also concerned that high rates of inflation continue to have a damaging effect on subscribers and the economy of Canada. In keeping with this concern, the company is seeking only limited, short-term rate relief in 1980, enough to maintain the minimal standard of financial results necessary to retain the confidence of investors. The rates requested are restricted to those that would allow the company to realize a level of return on average common equity in 1980 comparable to that of 1979.

As the state of the economy, the prospects for inflation and other circumstances affecting the company evolve during 1980, it will be necessary to consider whether further rate increases will be required for the year 1981.

Regulatory Matters

In a decision released in May, the CRTC ordered Bell Canada to permit CNCP Telecommunications to interconnect its system with that of Bell Canada for data communications and certain restricted types of voice communications. Although Canada's nine major telephone companies, including Bell Canada, asked the federal cabinet to defer implementation of the decision, it was announced on August 1 that the cabinet had rejected the request and therefore the CRTC order came into effect on August 16 as scheduled.

Chief concern of Bell and the other telephone companies was that, if the CNCP application was granted, there could be a serious effect on long distance revenues. In the decision the CRTC provided for safeguards intended to protect this important part of Bell Canada's business. There has not been enough experience to date to make a definitive assessment of how this interconnection will affect Bell Canada.

As reported in the Letter to Shareholders, Bell filed an application in November asking the CRTC to decide whether the public interest would be better served if subscribers were allowed to connect their own phones and other equipment to its network. Acknowledging the importance of the issue, the Commission subsequently announced that a public hearing would take place in the fall of 1980.

In recent years, inflationary pressures have raised questions about the need for special budget service for low-income groups, and there have been suggestions that as an alternative we should explore some method of charging for local service that would reflect actual patterns of use.

In 1977 the CRTC, supported by a number of consumer groups, asked Bell Canada to study the feasibility of measured rate service, often referred to as usage sensitive pricing, as a form of budget service. In September 1979, Bell submitted to the CRTC the outline of a proposed experiment to help assess measured service, including its use as a budget offering. The Commission has announced that before any trial takes place it plans to hold public hearings to provide an opportunity for a full discussion of the implications of measured service and related issues. Bell's basic position has consistently been that two-party flat rate service constitutes a valid form of budget service for those who need it.

In an investigation into the setting of TransCanada Telephone System rates and division of revenues, the CRTC scheduled the main hearing to begin on April 8, 1980.

Operating Highlights

At year-end Bell Canada had 9.2 million telephones in service, a growth of approximately 3.1 per cent over the previous year. Total local telephone conversations were 11,975 million, up 2.2 per cent from 1978, and long distance messages totalled 649.9 million, 6.5 per cent higher.

Expansion of the Phonecentre program continued during the year. In all, 13 stores were opened, bringing the total to 37. Another nine stores are scheduled to open in 1980. By the end of 1979 a total of 2,237,000 residential premises had been equipped with jacks.

The Traffic Operator Position System (TOPS) program, which permits operator-assisted long distance calls to be handled more economically, was extended during the year. TOPS was introduced in Hamilton, Québec City, Thunder Bay and part of Montréal (the Montréal conversion will be completed by mid-1980).

An important milestone in service to the North was reached during 1979 when the last high frequency radio service to points in the Northwest Territories was phased out. All northern communities in Bell Canada's territory in the NWT are now served by satellite. For the first time in the NWT, Direct Distance Dialing was introduced in Frobisher Bay.

Data Communications

In 1972 Bell Canada established the Computer Communications Group (CCG) to represent the company and support the TransCanada Telephone System in the fast-growing world of data communications.

Since then its development and marketing activities have seen CCG become a world leader in the development and provisioning of Computer Communications services. In six years the TCTS Dataroute has grown from serving 11 Canadian cities to serving 47, and handles some 13,000,000 bits of data each second.

The growth of Datapac has been equally dramatic. By year-end, Datapac had more than 2,000 connections. With the availability of new services such as Datapac 3303 and Datapac 3304, the network is expected to grow dramatically.

The competitive marketplace in 1979 saw CCG win major contracts from Canadian banks, service bureaus, lotteries, governments, and securities and insurance companies.

During 1979, in the terminal aspect of its business, CCG introduced a new teleprinter called Datacom 343 and a new interactive, low-cost, small, Canadian designed and manufactured terminal called Vutran. Vutran has a variety of applications from on-line credit checking to inventory control, accounting and reservation systems.

Offshore Operations

On December 13, 1979, Bell Canada completed the second year of its contract with the Saudi Arabian Ministry of Post, Telegraph and Telephone for the operation and maintenance of the country's telephone system. Bell Canada had as many as 724 employees in Saudi Arabia in 1979.

Since December 13, 1977, 236,000 lines of additional switching capacity have been placed in service by our partners in the project, Philips of the

While demand for telecommunications services has traditionally been greatest in urban areas, especially in the early days, more and more effort is being expended to bring modern services to even the most remote locations. This microwave facility brings telephone and television services to some 62 customers at Wunnummin Lake, 300 miles north of Thunder Bay in Ontario.

Bell Canada's expertise in telecommunications operations has been increasingly recognized over the years, and while the provision of service in our Canadian territory remains Bell's top priority, Bell experts today are assisting other telecommunications organizations around the world. This sharing of telecommunications experience is exemplified in this scene from Saudi Arabia where Bell plant foreman Ron Watson supervises a new Saudi Arabian technician.

Netherlands and L.M. Ericsson of Sweden. Working telephones have increased from 130,000 to 250,000. In addition, 140,000 homes have been pre-wired so that service can be provided quickly on completion of the telephone cable networks.

During 1979 Bell Canada also completed the construction of a data centre, including the provision of computer equipment, which is currently producing all subscriber telephone bills for the Kingdom. In addition, Bell Canada is constructing administrative and residential complexes at Saudi Telephone's headquarters site in Riyadh and in seven other major cities in the Kingdom. These eight building complexes represent a contract of 915 million Saudi riyals (equivalent to approximately 320 million Canadian dollars).

Individual Canadians working in Saudi Arabia continue to enjoy close working relationships with their Saudi Arabian counterparts, thus contributing substantially to the achievements in telephone service during the year.

In addition to Bell's Saudi Arabian project, Bell Canada International, the company's offshore telecommunications consulting subsidiary, increased its presence in the international marketplace. At year's end, BCI personnel were working on more than 20 projects in over a dozen countries on such tasks as training, engineering and management assistance, installation, repair and maintenance, network planning and computer communications. This represents over 100 man/years of exported capabilities, leading to the higher visibility of Bell Canada as an international provider of telecommunications expertise. BCI also participated in many Northern Telecom International proposals.

During 1979, as a result of increasing consulting activity in the United States, BCI formed an American subsidiary, BCI Incorporated, with headquarters in Virginia.

Manufacturing

Northern Telecom's consolidated sales at $1,901 million were 26.3 per cent higher than in 1978. While sales continued to grow in Canada where Northern Telecom's market share was maintained, the increase in other markets was much more substantial. For the first time combined sales in the United States and other world markets exceeded those in Canada.

Net earnings were up 20.2 per cent to $113.5 million, compared to $94.4 million earned in 1978 (before extraordinary items of $6.3 million). Earnings per share in 1979, based on the increased number of shares outstanding, were $3.70 compared to $3.33 per share in 1978 (before the extraordinary gain amounting to 22 cents per share).

During the year Northern Telecom became the first and only manufacturer in North America producing a complete line of digital switching and transmission systems. Northern Telecom equipment has achieved broad acceptance throughout North America and at the end of the year 1,272 DMS (digital multiplex systems) had been sold or were on order.

An important development was the decision by American Telephone & Telegraph Company to recommend to its operating telephone companies the DMS-10 for replacements and new systems serving up to 4,000 lines. A three-year contract outlining the conditions upon which DMS equipment would be supplied by Northern Telecom, Inc. (NTI), for any orders received, was signed in February 1980.

In the United States NTI signed two-year agreements to supply DMS to the Continental Telephone Corporation, Central Telephone and Utilities and the Mid-Continent Telephone Company, respectively the fourth, fifth and sixth largest U.S. telephone companies.

In December it was announced that Northern Telecom's international marketing subsidiary, Northern Telecom International Ltd., was the successfull bidder for a tender which could be worth as much as $90 million to supply digital transmission equipment to the South Korean telephone system over a three-year period.

Demand for Northern Telecom's digital products has been increasing the need for large-scale integrated circuits. A fabrication facility to produce custom LSI chips designed by Bell-Northern Research was established in the Ottawa area during the year and a second was announced for opening in San Diego, California, in 1981. Research, engineering, design and development continue to be based in Ottawa.

Fifteen new facilities or plant expansions were completed or announced by Northern Telecom in 1979. Northern Telecom's order backlog at the end of 1979 was $874 million, up 38 per cent from $635 million at the end of 1978.

Vista-Videotex Trial Announced

An important advance in Bell Canada's effort to develop a successful two-way information system for home and office use occurred last summer with the announcement that the federal Department of Communications would participate with Bell Canada in a $10 million field trial of a second-generation interactive visual communications system based on the Canadian government's Telidon technology.

The field trial, beginning in 1981, will see several hundred Canadian-made user terminals offering both residential and business trial users a choice of up to 100,000 "pages" of on-demand information for display on their own television sets. It will be one of the world's largest trials of videotex (the internationally recognized term for such public, network-based information systems). Bell Canada has adopted the name Vista for its videotex systems.

Labour Relations

At year-end Bell had approximately 56,100 employees. Most of the approximately 40,600 non-management personnel were represented by two unions, the Canadian Telephone Employees' Association (CTEA) and the Communications Workers of Canada (CWC).

Following bargaining sessions spread over several months, the company and the CTEA reached an agreement in principle for new one-year contracts covering over 17,800 clerical and communications sales personnel. After union members had voted in favour of the proposals, contracts expiring on November 30, 1980, were signed with the CTEA on December 19.

On September 10, 1979, a contract expiring November 30, 1981, was signed with the CWC covering approximately 15,300 craft and services employees. This new collective agreement was reached after a prolonged period of negotiations, conciliation and finally mediation. In the period from June to August, 1979, a series of rotating strikes and lockouts took place. On August 13 a general strike of craft and services employees commenced. A tentative agreement was reached by August 31 and signed on September 10. The employees resumed work by mid-September.

On October 4, 1978, an application was filed with the Canada Labour Relations Board (CLRB) by the CWC for certification as the bargaining agent for Bell Canada's traffic and dining service employees then represented by the Communications Union Canada. This application was denied on February 23, 1979. Following the re-application

of the CWC, an employee allegiance vote was held in the period June 8 to July 27 which indicated that a majority of the traffic and dining service employees wished to be represented by the CWC. Negotiations for a renewed agreement with the previous union were being assisted by a conciliator and had temporarily been postponed pending the outcome of the vote for certification by the CWC. On July 31, 1979, the CLRB certified the CWC as bargaining agent and initial negotiations commenced in August.

Following several meetings, the company sought the services of a conciliation commissioner from the federal minister of labour. The commissioner's report was issued on December 17 and was accepted by the CWC. Bell, however, sought clarification of some of the issues and made a new proposal to the union, which put the new offer before the membership for a vote in January.

On January 19 the union announced that its members had rejected the offer and that a full-scale strike would take place. Less than a week later two mediators were appointed by the federal minister of labour to assist in the resolution of the dispute.

On February 5, following six days of separate meetings with the company and union representatives, the mediators adjourned the proceedings. The mediators indicated they had not found a basis for a settlement at that time but that they would remain available and could possibly call for a resumption of talks at a later date.

Centennial Observances

Bell Canada will mark its first hundred years of service in 1980 by initiating projects that will emphasize its tradition of serving the community, not only through the provision of telecommunications services but through support of worthwhile community activities and helping to meet community needs.

One of Bell's major centennial undertakings is to sponsor a series of 36 seminars in its Ontario and Québec territory to enhance teacher and public understanding of the social challenge posed by the plight of children with learning disabilities.

The seminars, to be conducted by the Canadian Association for Children with Learning Disabilities and their provincial affiliates in Ontario and Québec, will each be led by one of 18 leading Canadian experts in this field. Educators and teachers attending will receive advice on how to identify such children in the classroom and how to assist them. In each location an information meeting for parents and the public will also be held.

The seminar program will be augmented through videotapes of the seminars and a book summarizing the presentations. These will be made available to schools to be used as part of their ongoing teacher development programs.

Another centennial project that was begun in 1978 is to identify the special telecommunications needs of the physically handicapped so that the company may help in meeting these needs, either through arranging for the required research or by introducing new products or services as appropriate. Many organizations and associations for the handicapped are co-operating in this study which will culminate in 1980.

Employee projects at the local level will be tailored to the particular community's individual needs.

In total, Bell's centennial observances are designed to demonstrate the ideal of service which has characterized the telephone industry since its beginning and indicate that this tradition will be continued through the second century of service.

As early as 1896, the then Northern Electric and Manufacturing Company had established a test unit in their Montréal plant. Constant and directed research has made the Bell group world leaders in the successful application of high technology to telecommunications. At Bell-Northern Research in Ottawa new methods are being tested to further improve the quality of the custom-built large-scale integrated circuits widely used in Northern Telecom's digital product line.

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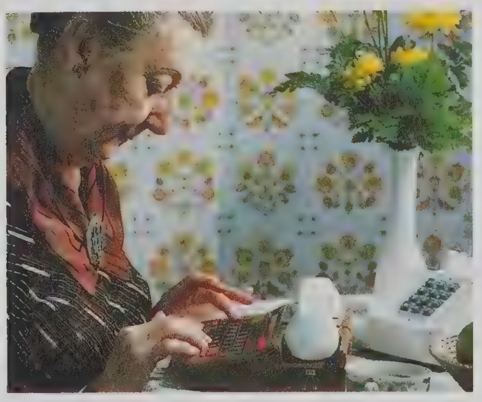

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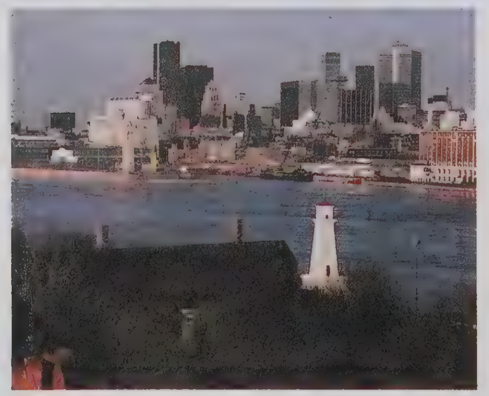

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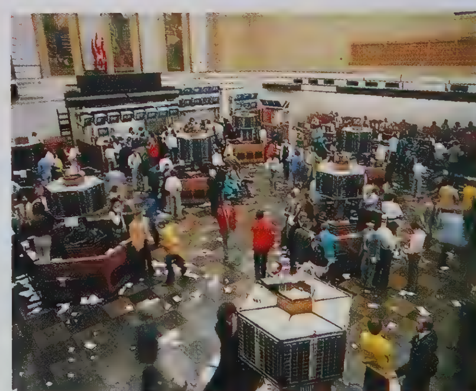

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From the basic local and long distance services provided in earlier days, the telecommunications services offered by Bell have expanded and diversified enormously in order to meet the needs of modern society. Typical of some of today's services are: 1) Bell Phonecentres, allowing customers to choose their own telephones; 2 and 3) long distance service bringing more and more people together; 4) special aids like the Visual Ear, enabling the handicapped to communicate by telephone; 5) internal communications facilities for today's hospital or any place of business; 6) interactive visual systems, as in Bell's Vista trial; 7) the complex system of telecommunications for the modern city; 8) the Vutran terminal, a new development in the rapidly growing field of data communications; and 9) a data communications network to help the Toronto Stock Exchange provide trading data on more than 20 North American markets.

Creative Evolution is no Accident

1880. The Bell Telephone Company of Canada was incorporated by Special Act of Parliament.

1881. The company's first long distance line was opened between Toronto and Hamilton.

1890. The company began giving night and Sunday service in exchanges having more than 100 subscribers.

1900. First common battery central office in the company put in service in Ottawa.

1915. Montréal connected with San Francisco to demonstrate transcontinental telephony.

1924. The company's first dial exchange, Toronto Grover, was put in service.

1932. Québec became the first city in company territory to have all-dial service.

1947. Mobile Telephone Service was inaugurated in Montréal and Toronto.

1953. Canada's first microwave relay TV network officially opened.

1958. Direct Distance Dialing was introduced in Toronto.

1961. Touch-Tone calling (now known as "Touch Phone" service) tested in Montréal.

1967. Canada's first Electronic Switching System (ESS) served EXPO '67 in Montréal.

1968. The first telephone conceived, designed, and manufactured in Canada, the Contempra phone, was introduced.

1971. Bell Canada-Northern Electric Research (BNR) formed.

1973. The world's first nationwide digital data transmission system, the Dataroute, went into commercial service.

1977. First trial of fibre optics technology in Canada began over a 1.6 kilometre cable linking two downtown switching centres in Montréal.

1979. Bell Canada and the Federal Department of Communications announced a combined large-scale trial of two-way TV technology.

Fewer than 2,000 telephones made up Bell Canada's total system when the company was formed in 1880. Local service was really quite good if one spoke slowly and distinctly – and the weather was dry. In bad weather, of course, there was a lot of static. And a long distance call of more than ten miles was a real adventure at any time.

Thirty dollars was all it cost in 1880 for a full year of local telephone service, in Montréal for example. But in 1880 the Montréal exchange covered only about ten square miles and fewer than 550 telephones. And $30 in 1880 was roughly equivalent in buying power to $240 in today's currency. In sharp contrast, a private-line customer with three times that scope of local service would today be charged just $4.95 a month–less than $60 a year.

Relatively few people could afford a telephone in those days. The whole idea was new and strange. But instant communication at a distance was needed, and that primitive telephone readily proved its worth in both business and social intercourse. Then, as the industry developed and grew, the pace of its improvement quickened–in scope, in quality of transmission and equipment, and in the ever-increasing variety of the services it offered. And, keeping pace with these, were improvements in the availability and the relative cost of the services, and in the knowledge and skill of the dedicated men and women who provided them.

Today, as a result of an evolutionary process that began a century ago, there are some 16 million telephones in this country, and Bell Canada serves more than nine million of them. In quality and reliability the telephone service available to Canadians is unsurpassed and its cost, in constant dollar terms, is less than it was 100 years ago. And remarkable as that achievement has been, it is only a small part of the Bell Canada story in 1980.

Telephony has evolved into telecommunications, and Bell Canada is at the forefront of its continuing development. With the advent of such modern miracles as switching machines that remember, simultaneous sound and image reproduction, and the transmission of masses of information at incredible speeds between computers, Bell Canada is able to meet the most exacting communications requirements of modern business and industry and, at the same time, provide the convenience and security of good, old-fashioned telephone service for its residence customers.

How did all this come about? What were the forces driving and directing the evolutionary development of Bell Canada? Initially, of course, it was a small group of far-sighted and determined men who provided the impetus; they saw the potential in Alexander Graham Bell's invention and succeeded in selling the idea to the public. Climate and geography, too, may well have been factors in the pace of the company's early development. The small and scattered centres of population, the vast distances and the often unco-operative weather in this part of the country made telecommunications all the more attractive and the need for progress more urgent than in most other places.

But then, as the scientists and engineers discovered new devices and new ways to carry information with ever-greater fidelity over longer and longer distances, and as the business specialists developed more effective ways in which the increasingly sophisticated technology could be harnessed and brought to the service of people, the customers began to take charge. Their needs and their preferences became the driving force behind the company, determining what direction research and development should take and in what areas growth and expansion were required.

Of course, to ensure that the public interest was properly served, and that innovation did not disrupt the existing services, it was essential that each new development fit smoothly into the system already in operation. This was important to the shareholders as well as to the customers, because lack of adequate planning in this regard could result in premature obsolescence of costly facilities, the weakening of the company's financial position, and a consequent unnecessary increase in the cost of the services concerned.

Thus, at an early stage in Bell Canada's history, the people doing basic and applied research, those involved in the manufacturing of telecommunications equipment and those responsible for providing services to the public came to recognize the vital importance of the closest possible co-operation between their different but related functions at every stage of their operations. And this gave rise to what is now referred to as "vertical integration" – a direct, corporate-family relationship linking the three essential elements of the industry.

Without it, Bell Canada's customers would not today be enjoying the advantages of telecommunications services designed and developed to meet their particular needs and provided by a company that is acknowledged a world leader in the field.

Looking back from the vantage point of 1980, we can pinpoint some of the significant developments in the evolution of Bell Canada and of present-day telecommunications. There was, of course, that remarkable occurrence in July of 1874 when Alexander Graham Bell, in describing to his father his concept of the electrical transmission of speech sounds, invented the telephone at Brantford, Ontario. Then, two years later, the world's first long distance call was completed from Brantford to nearby Paris, Ontario.

Just four years later, the first telephone exchange in Canada–indeed, the first in the then British Empire–was established at Hamilton, Ontario. And so great was the interest in–and the need for–telecommunications that local telephone companies sprang into being in many parts of the country. At one time there were more than 2,000 different telephone systems in Canada. Even today there are some 250 in operation, but whether shareholder-owned or government-operated their lines are interconnected to provide a truly national network.

Radio entered our picture in 1901 when Guglielmo Marconi, at St. John's, Newfoundland, succeeded in receiving radio signals from England, and radio transmission has since become an integral part of Bell Canada's telecommunications system.

Technological improvements came thick and fast and, keeping pace, came advances in the operating methods, the organization and the business practices of the company. In construction, in installation and maintenance, in switching centres and business offices throughout our territory, new designs, new tools and techniques and new services meant new and different operating procedures. Training courses were established to help Bell people learn new skills and keep abreast of these developments. The more complex the system became, the higher was the standard of technical and administrative skill required, and the men and women of Bell Canada responded by upgrading their abilities, improving their performance and, consequently, enhancing both their job satisfaction and their earning power.

In the past few years we have seen tremendous advances in the transmission and switching of data at high speed, in the advent of the stored-program electronic switching system, in the phased changeover from the analogue to the more efficient digital system of communications, and in the introduction of fibre optics which promise fantastic increases in the carrying capacity and the usefulness of the telecommunications network for all customers, whether residential or commercial.

We have seen the development of new types of services too, for both home and office–services designed to satisfy the changing and developing needs of the public. And with the marriage of telecommunications and computer technology has come the ability to add new and useful service features by simply changing computer programs instead of by replacing or adding costly electro-mechanical devices.

In recent years, long-standing policies of the company have been modified, and effort and capital resources have been redirected into new channels, in order to keep in step with evolving customer requirements. All this has been done in an orderly and controlled manner that safeguards both the standard of service and the shareholders' investment.

What has not changed over the years is the commitment of Bell Canada and its associated companies – in research, in manufacturing and in serving the public – to provide the best possible telecommunications products and services to all customers at reasonable cost.

The evolution of Bell Canada and its role in Canadian society is a process that began more than a century ago, and has been kept on track and constantly accelerating through the intervening years by a succession of able and dedicated people. It has produced a major Canadian company that is known and respected throughout the world for its expertise in a field of high technology, for its readiness to share that expertise with others and for its ability to compete on an equal footing in national and international markets.

Miniaturization of components has long been a trend in telecommunications technology. Early central office machines used an electro-mechanical switch as a basic building block while Northern Telecom's digital switchers use silicon chips like the one shown here. Chip technology represents a 5,000-to-one improvement in the capability for electrical connections.

Financial Statements

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada and its subsidiaries have been prepared in accordance with Canadian generally accepted accounting principles which are in general consistent with those in the United States except for the differences described in note 1 of Notes to Financial Statements.

The integrity and objectivity of data in these financial statements are the responsibility of management. To this end, management maintains a highly developed system of internal accounting controls and supports an extensive program of internal audits.

Management believes that the system of internal accounting controls provides a reasonable assurance that:

—transactions are executed in accordance with management's general or specific authorization;

—transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets;

—access to assets is permitted only in accordance with management's general or specific authorization; and

—the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

These financial statements have been examined by Touche Ross & Co., Chartered Accountants, and their report is shown below.

The Board of Directors pursues its responsibility for these financial statements principally through its Audit Committee which meets periodically with management as well as with the internal and external auditors who have full and free access to the Audit Committee, and meet with it, with and without management being present, to discuss auditing and financial reporting matters.

G. L. Henthorn
Vice-President & Comptroller

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheets of Bell Canada as at December 31, 1979 and 1978 and the consolidated statements of income, retained earnings, premium on capital stock and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montréal, Québec
February 13, 1980

Consolidated Income Statement

For the years ended December 31

		Thousands of dollars 1979	1978
Telecommunications operations	Operating revenues		
	Local service	$1,449,713	$1,312,734
	Long distance service	1,413,937	1,223,314
	Miscellaneous – net	97,917	85,670
	Total operating revenues	2,961,567	2,621,718
	Operating expenses	2,150,083	1,865,958
	Net revenues – telecommunications operations	811,484	755,760
Manufacturing operations	Sales (note 1)	1,864,160	1,469,997
	Cost of sales	1,269,737	998,569
	Selling, general, administrative and other expenses	412,591	326,759
		1,682,328	1,325,328
	Net revenues – manufacturing operations	181,832	144,669
Contract and directory operations	Revenues	439,012	282,640
	Operating expenses	339,048	237,253
	Net revenues – contract and directory operations	99,964	45,387
	Total net revenues	1,093,280	945,816
	Other income		
	Allowance for funds used during construction	20,722	14,087
	Equity in net income of associated companies and a non-consolidated manufacturing subsidiary (notes 1 and 2)	18,712	16,923
	Miscellaneous – net	33,675	18,106
	Total other income	73,109	49,116
	Interest charges		
	Interest on long term debt (note 3)	289,745	255,350
	Other interest	23,054	8,127
	Total interest charges	312,799	263,477
	Income before underlisted items	853,590	731,455
	Unrealized foreign currency losses (notes 1 and 17)	10,685	259
	Income before income taxes, minority interest and extraordinary items	842,905	731,196
	Income taxes (notes 3 and 4)	355,371	323,585
	Income before minority interest and extraordinary items	487,534	407,611
	Minority interest	54,348	37,049
	Income before extraordinary items	433,186	370,562
	Extraordinary items (note 5)	—	24,490
	Net income (note 17)	**433,186**	**395,052**
	Dividends on preferred shares	30,521	38,702
	Net income applicable to common shares	**$ 402,665**	**$ 356,350**
	Earnings per common share* (notes 7 and 17)		
	before extraordinary items	$2.64	$2.49
	extraordinary items	—	$0.18
	after extraordinary items	$2.64	$2.67
	Assuming full conversion of convertible preferred shares		
	before extraordinary items	$2.55	$2.36
	extraordinary items	—	$0.16
	after extraordinary items	$2.55	$2.52
	Dividends declared per common share†	**$1.55**	**$1.43**
	*Based on weighted average common shares outstanding (thousands) †	152,810	133,396

†Reflects the three-for-one common share subdivision.

Consolidated Balance Sheet

As at December 31

		Thousands of dollars 1979	1978
Assets			
Telecommunications property – at cost (note 8)	Buildings, plant and equipment	$9,741,337	$8,826,260
	Less: Accumulated depreciation	2,950,562	2,614,419
		6,790,775	6,211,841
	Land	65,153	61,833
	Plant under construction	270,089	221,181
	Material and supplies	128,971	107,746
		7,254,988	6,602,601
Manufacturing property – at cost (note 8)	Buildings, plant and equipment	680,274	590,243
	Less: Accumulated depreciation	274,868	234,651
		405,406	355,592
	Land	13,353	12,796
		418,759	368,388
		7,673,747	6,970,989
Investments	Associated companies and non-consolidated subsidiaries – at equity (note 1)	417,403	151,318
	Other	4,832	5,723
		422,235	157,041
Current assets	Cash and temporary cash investments – at cost (approximates market)	95,286	228,986
	Accounts receivable – principally from customers (including $5,903 (1978 – $3,598) from associated companies)	1,060,145	773,496
	Inventories (note 9)	492,539	361,402
	Other (principally prepaid expenses)	106,519	77,877
		1,754,489	1,441,761
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	49,532	91,851
	Long term receivables	41,296	44,932
	Deferred charges		
	contract operations	90,583	112,912
	unrealized foreign currency losses, less amortization	131,780	165,162
	other	82,663	84,371
	Cost of shares in acquired subsidiaries in excess of underlying net assets, less amortization (note 1)	119,163	127,989
	Other	11,025	8,275
		526,042	635,492
	Total assets	**$10,376,513**	**$9,205,283**

On behalf of the Board of Directors:

H. Clifford Hatch
Director

Marcel Bélanger
Director

Liabilities and Shareholders' Equity		Thousands of dollars 1979	1978
Capital stock authorized (note 10)			
Common shareholders' equity	Common shares outstanding (note 11)	$1,320,647	$1,176,622
	Premium on capital stock	807,778	607,388
	Contributed surplus	15,290	15,290
	Retained earnings	1,198,384	1,041,075
		3,342,099	2,840,375
Convertible preferred shares (redeemable) (note 12)		216,718	290,765
Non-convertible preferred shares (redeemable) (note 12)		112,255	113,965
Minority interest in subsidiary companies	Preferred shares	30,324	30,908
	Common shares	437,417	265,770
		467,741	296,678
Long term debt (including unrealized foreign currency losses) (note 13)		3,675,103	3,381,086
Current liabilities	Accounts payable	570,956	477,831
	Advance billing for service	52,445	49,617
	Dividends payable	72,540	60,889
	Taxes accrued	73,433	110,879
	Interest accrued	78,875	71,497
	Debt due within one year (note 14)	306,086	280,796
		1,154,335	1,051,509
Deferred credits	Income taxes	1,066,749	933,900
	Other (note 15)	341,513	297,005
		1,408,262	1,230,905
Commitments and contingent liabilities (notes 8 and 15)	**Total liabilities and shareholders' equity**	**$10,376,513**	**$9,205,283**

G. L. Henthorn
Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock

For the years ended December 31

	Thousands of dollars	
	1979	1978
Balance at beginning of year	$ 607,388	$ 527,143
Premium on common shares issued during the year	200,390	80,245
Balance at end of year	$ 807,778	$ 607,388

Consolidated Statement of Retained Earnings

For the years ended December 31

	Thousands of dollars	
	1979	1978
Balance at beginning of year	$1,041,075	$ 882,537
Net income	433,186	395,052
Excess of par value over cost of preferred shares purchased for cancellation (note 12)	37	4
	1,474,298	1,277,593
Deduct:		
Dividends		
Preferred shares		
$3.20 shares	384	634
$3.34 shares	316	645
$4.23 shares	1,474	7,352
$2.28 shares	5,316	11,390
$1.96 shares	13,478	9,060
$2.25 shares	3,253	3,321
$1.80 shares	6,300	6,300
	30,521	38,702
Common shares	240,571	193,113
	271,092	231,815
Expenses of issues of capital stock	4,822	4,703
	275,914	236,518
Balance at end of year	$1,198,384	$1,041,075

Consolidated Statement of Changes in Financial Position

For the years ended December 31

		Thousands of dollars 1979	1978
Source of funds	Operations		
	Income before extraordinary items	$ 433,186	$ 370,562
	Items not affecting current funds		
	Depreciation	646,970	550,058
	Deferred income taxes	132,849	101,516
	Allowance for funds used during construction	(20,722)	(14,087)
	Other – net	12,547	52,656
	Total from operations	1,204,830	1,060,705
	Extraordinary items (note 5)	—	24,490
	Proceeds from long term debt	575,524	579,558
	Due to non-consolidated finance subsidiaries	165,957	79,421
	Proceeds from issue of Bell Canada common shares		
	underwritten issue	194,109	—
	under the dividend reinvestment and stock purchase plan	64,125	30,134
	Proceeds from issue of Bell Canada preferred shares	—	170,903
	Proceeds from issues of shares by subsidiaries to minority shareholders	97,792	96,724
	Issue of common shares upon conversion of convertible preferred shares	74,044	125,820
	Advance payment on contract operations (note 15)	—	190,587
	Decrease in cash and temporary cash investments held for contract operations	42,319	—
	Miscellaneous	192,423	117,138
		$2,611,123	$2,475,480
Disposition of funds	Capital expenditures		
	Gross capital expenditures	$1,351,044	$1,183,972
	Deduct: charges not requiring funds	(13,396)	(24,395)
	Increase in material and supplies	21,225	4,939
	Net expenditures	1,358,873	1,164,516
	Dividends by Bell Canada	271,092	231,815
	Dividends by subsidiaries to minority shareholders	15,546	11,508
	Reduction of long term debt	428,758	246,018
	Acquisition of investments (less working capital acquired in 1978 of $107,427)	2,848	189,294
	Investments in non-consolidated finance subsidiaries	233,835	23,712
	Conversion of preferred shares	74,047	125,848
	Increase in cash and temporary cash investments held for contract operations	—	91,851
	Deferred charges – contract operations	—	112,912
	Miscellaneous	16,222	27,947
	Increase in working capital	209,902	250,059
		$2,611,123	$2,475,480
Working capital changes	Increase (decrease) in current assets:		
	Cash and temporary cash investments	$ (133,700)	$ 98,738
	Accounts receivable	286,649	350,682
	Inventories	131,137	142,965
	Other	28,642	23,630
	(Increase) decrease in current liabilities:		
	Accounts payable	(93,125)	(157,131)
	Advance billing for service	(2,828)	(6,987)
	Dividends payable	(11,651)	(10,676)
	Taxes accrued	37,446	(90,671)
	Interest accrued	(7,378)	(15,336)
	Debt due within one year	(25,290)	(85,155)
	Increase in working capital, as above	$ 209,902	$ 250,059

Notes to Financial Statements

Bell Canada and Subsidiary Companies

1. Accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. With respect to the consolidated financial statements of Bell Canada and its subsidiary companies, the only important differences between Canadian and United States generally accepted accounting principles, as described in note 17, are: a) the method of accounting for translation of foreign currencies and b) the accounting treatment of an increase in book value in a subsidiary's net assets resulting from the issuance of shares not purchased by the parent company. Another difference is in regard to the financial statement presentation of the results of the disposal of a segment of a business, as described in note 6.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. Bell Canada is regulated on the basis of its non-consolidated financial statements in which its investments in subsidiary and associated companies are carried at cost. The system of accounts and accounting practices are similar to those being used in the telecommunications industry.

Consolidation

The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for certain subsidiaries of Northern Telecom Limited (its finance subsidiaries and Netas-Northern Electric Telekomünikasyon, A.S. "Netas"). These non-consolidated subsidiaries and the investments in associated companies (50% or less, and 20% or more) have been accounted for by the equity method. The finance subsidiaries are not consolidated as their business is fundamentally different from that of the consolidated group (see note 3). Netas is accounted for on the equity method as Northern Telecom Limited is required to reduce its holdings in that company to below 50%.

The associated companies of Bell Canada and its subsidiaries at December 31, 1979 were Maritime Telegraph and Telephone Company, Limited,(1) The New Brunswick Telephone Company, Limited, Telesat Canada, Sotel Inc., Intersil, Inc. and Edward H. O'Brien Pty. Limited.

The companies in which Bell Canada had a direct investment of more than 50% of the common shares outstanding at December 31, 1979 were:

Northern Telecom Limited	54.5%
Newfoundland Telephone Company Limited	66
Northern Telephone Limited	99.8
Télébec Ltée	100
Lièvre Valley Telephone Company	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada–International Management, Research and Consulting Ltd.	100

For companies acquired, the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $4,128,000 in 1979 ($4,142,000 - 1978).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position, on a non-consolidated basis, are presented on pages 40 to 42.

(1) At December 31, 1979, Bell Canada was the registered owner of 2,172,200 or 38.2% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

1. Accounting policies (continued)

Consolidation (continued)

Manufacturing sales comprise:

	Thousands of dollars	
	1979	1978
Sales to:		
Bell Canada	$ 616,006	$ 536,684
Telephone subsidiary and associated companies of Bell Canada	43,522	50,694
Sub-total	659,528	587,378
Sales to others	1,204,632	882,619
Total sales	$1,864,160	$1,469,997

Telecommunications equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and is included in Manufacturing sales in the consolidated income statement. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1979 was $646,970,000 ($550,058,000-1978) and the composite rate was 6.55% (6.33%-1978).

Maintenance and repairs

The cost of maintenance and repairs of property is expensed as incurred.

Research and development

All research and development costs incurred, which amounted to $183,744,000 ($150,936,000-1978), were charged to income.

Translation of foreign currencies

Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items. In 1979, unrealized foreign currency losses charged to income were $10,685,000 ($259,000-1978), consisting of the amortization of $11,338,000 ($7,197,000-1978) of foreign currency losses on long term debt less gains of $653,000 ($6,938,000-1978) on the translation of foreign currency financial statements and net assets denominated in foreign currencies.

Leases

Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

1. Accounting policies (continued)

Inventories
Inventories held by the manufacturing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction
Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations
Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes
Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes.

2. Equity in net income of associated companies and a non-consolidated manufacturing subsidiary

This item represents the share of net income of companies accounted for by the equity method, except for the finance subsidiaries. See note 3.

The dividends received from companies accounted for by the equity method amounted to $9,345,000 ($7,926,000-1978).

3. Non-consolidated finance subsidiaries

Income from operations of the finance subsidiaries of Northern Telecom Limited reduces consolidated interest on long term debt; unrealized foreign currency losses and income taxes are included in the respective captions of the consolidated income statement. The following is a summary of the combined financial data of these companies for the year ended December 31, 1979, their first year of operations.

	Thousands of dollars
	1979
Interest income	$ 32,934
Interest expense	(5,571)
Administrative expense	(635)
Income from operations	26,728
Unrealized foreign currency losses	(887)
Income taxes	(4,368)
Net income	$ 21,473
	December 31, 1979
Total assets	$289,461
Total liabilities	$ 10,441
Shareholders' equity	$279,020

4. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1979	1978
Statutory income tax rate	48.9%	48.5%
i) Allowance for funds used during construction, net of applicable depreciation adjustment	(0.7)	(0.5)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	(0.8)	(0.9)
iii) Equity in net income of associated companies and a non-consolidated manufacturing subsidiary	(1.1)	(1.1)
iv) Tax credits on research and development expenditures	(1.9)	(1.1)
v) Inventory credit	(0.3)	(0.3)
vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(1.9)	(0.1)
vii) Other	—	(0.2)
Effective income tax rate	42.2%	44.3%

Details of the company's income taxes are as follows:

	Thousands of dollars	
	1979	1978
Current	$222,522	$222,069
Deferred	132,849	101,516
Total income taxes	$355,371	$323,585

Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

5. Extraordinary items

	Thousands of dollars
	1978
i) Reduction of income taxes, net of minority interest of $3,407,000, arising from the utilization of prior years' tax losses of subsidiaries ($0.06† per common share)	$ 8,964
ii) Increase in book value in subsidiaries, reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon the acquisition of Sycor, Inc. The Canadian practice is to include this increase as income whereas the practice in the United States is to treat it as paid-in capital ($0.13† per common share)	17,474
iii) Provision (net of income taxes of $3,648,000 and minority interest of $1,244,000) for costs of terminating the electrical and electronic products distribution business of Northern Telecom Limited ($0.01 † per common share)	(1,948)
	$24,490

†Reflects the three-for-one common share subdivision.

6. Disposal of a segment of a business

Certain of the assets of subsidiaries in the electrical and electronic products distribution business were sold in January 1979. The results of continuing and discontinued operations due to the termination as of December 31, 1978 of such business are as follows:

	Thousands of dollars except per share amounts
	1978
Manufacturing operations	
Continuing operations	$1,331,360
Discontinued operations	138,637
	$1,469,997
Consolidated income	
Continuing operations	$ 369,734
Discontinued operations	(1,120)
Extraordinary items	26,438
Net income	$ 395,052
Earnings per common share assuming full conversion of convertible preferred shares†	
Continuing operations	$ 2.36
Discontinued operations	(0.01)
Extraordinary items	0.17
	$ 2.52

7. Earnings per common share

Earnings per common share are based on weighted average shares outstanding. For the computation of the earnings per share, assuming full conversion of convertible preferred shares, the dividends on convertible preferred shares have been added back to income.

8. Leases

Telecommunications property and Manufacturing property include property recorded under capital leases as follows:

	Thousands of dollars	
	Dec. 31, 1979	Dec. 31, 1978
Telecommunications property		
Buildings, plant and equipment	$53,209	$51,096
Less: Accumulated depreciation	14,067	14,009
	39,142	37,087
Land	3,350	3,350
	$42,492	$40,437
Manufacturing property		
Buildings, plant and equipment	$24,982	$20,400
Less: Accumulated depreciation	4,525	2,216
	$20,457	$18,184

†Reflects the three-for-one common share subdivision.

8. Leases (continued)

The future minimum lease payments under capital leases, and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1979, are as follows:

	Thousands of dollars	
	Capital leases	Operating leases
1980	$ 15,736	$ 44,629
1981	15,337	36,227
1982	14,051	28,432
1983	12,778	21,895
1984	11,605	17,500
Thereafter	143,952	64,294
Total future minimum lease payments	213,459	$212,977
Less: Estimated executory costs	72,813	
Net minimum lease payments	140,646	
Less: Imputed interest	73,677	
Present value of net minimum lease payments	$ 66,969	

Rental expense applicable to all operating leases for the year 1979 was $107,370,000 ($92,846,000-1978).

On January 31, 1980, Bell Canada purchased a building for $62,500,000 and assumed a mortgage of $40,500,000 at 9% due in instalments to 1995. Since part of that building was previously leased and capitalized, the future minimum lease payments included in capital leases above will be reduced by approximately $78,500,000.

9. Inventories

	Thousands of dollars	
	Dec. 31, 1979	Dec. 31, 1978
Manufacturing		
Raw materials	$167,553	$118,400
Work-in-process	164,697	135,490
Finished goods	160,289	107,512
	$492,539	$361,402

10. Capital stock authorized

By charter – $5,000,000,000.

By shareholders* – $5,000,000,000 divided into common shares of the par value of $8⅓ each, and: (a) not more than 2,000,000 of a class of preferred shares to a maximum aggregate amount of $94,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225,000,000; (c) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $219,000,000; (d) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $175,000,000; and (e) ten additional classes of preferred shares to a maximum aggregate amount of $1,000,000,000.

*Reflects the following changes approved by the shareholders on April 17, 1979:
(a) the increase in authorized capital stock from $1,750,000,000 to $5,000,000,000,
(b) the subdivision of $25 par value common shares on a three-for-one basis and
(c) the creation of ten additional classes of preferred shares to a maximum aggregate amount of $1,000,000,000.

11. Common shares outstanding

	Dec. 31, 1979 Number of shares	Dec. 31, 1979 Amount	Dec. 31, 1978 Number of shares	Dec. 31, 1978 Amount
				Dollars in thousands
Par value of $8⅓ per share	158,477,704	$1,320,647	141,194,643	$1,176,622

In 1979, Bell Canada issued 4,305,681 (7,805,451 – 1978) common shares upon conversion of preferred shares and 12,977,380 (2,108,280 – 1978) common shares for cash. The common shares issued for cash in 1979 represent 9,375,000 shares sold to underwriters, 3,144,057 (1,640,871–1978) shares issued under the Shareholder Dividend Reinvestment and Stock Purchase Plan and 458,323 (467,409 – 1978) shares purchased by employees through assignment of dividends under the provisions of the Employees' Savings Plan (1966). The excess of proceeds over par value in 1979, for shares issued for cash, amounting to $162,226,000 ($19,471,000 – 1978) was allocated to Premium on capital stock.

Common shares reserved at December 31, 1979 – 12,543,652:

11,155,307 shares for issuance upon conversion of all convertible preferred shares.
173,273 shares for issuance under the Employees' Savings Plan (1966).
1,215,072 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

All common share data have been adjusted to reflect the common share subdivision which became effective April 25, 1979.

12. Preferred shares outstanding

		Dec. 31, 1979 Number of shares	Dec. 31, 1979 Amount	Dec. 31, 1978 Number of shares	Dec. 31, 1978 Amount
					Dollars in thousands
Convertible preferred shares (redeemable)	$3.20 shares (par value of $47 per share)	108,991	$ 5,123	139,272	$ 6,546
	$3.34 shares, class B, series B (par value of $52 per share)	81,420	4,234	118,996	6,188
	$4.23 shares, class C, series D (par value of $47 per share)	259,179	12,181	568,714	26,730
	$2.28 shares, class C, series E (par value of $25 per share)	1,459,650	36,491	3,058,325	76,458
	$1.96 shares, class D, series G (par value of $25 per share)	6,347,552	158,689	6,993,735	174,843
	Total par value of convertible preferred shares		$216,718		$290,765
Non-convertible preferred shares (redeemable)	$2.25 shares, class B, series C (par value of $30 per share)	1,408,500	$ 42,255	1,465,500	$ 43,965
	$1.80 shares, class B, series F (par value of $20 per share)	3,500,000	70,000	3,500,000	70,000
	Total par value of non-convertible preferred shares		$112,255		$113,965

12. Preferred shares outstanding (continued)

Following is a brief summary of the material characteristics of the preferred shares:

		Redeemable at Bell Canada's option	Preferred to common conversion basis	Convertible to	Number of shares converted at December 31, 1979	Purchase fund requirements(d)
Convertible (a)	$3.20 shares	Currently at $48.50 per share to Feb. 1, 1980 and at reducing amounts thereafter to $47 after Feb. 1, 1982.	1 for 3	Feb. 1, 1982	1,891,009 including 1979 – 30,281 (1978 – 108,505)	—
	$3.34 shares	Currently at $54 per share to Aug. 1, 1980 and at reducing amounts thereafter to $52 after Aug. 1, 1983.	1 for 3(b)	Aug. 1, 1983	1,918,580 including 1979 – 37,576 (1978 – 133,903)	—
	$4.23 shares	On Dec. 1, 1980 at $51 per share to Dec. 1, 1981 and at reducing amounts thereafter to $47 after Dec. 1, 1986.	1 for 3	Dec. 1, 1986	1,740,821 including 1979 – 309,535 (1978 – 1,386,481)	Annually 100,000 shares commencing in 1982
	$2.28 shares	On Jul. 2, 1981 at $27 per share to Jul. 2, 1982 and at reducing amounts thereafter to $25 after Jul. 2, 1987.	2 for 3	Jul. 2, 1987	3,540,350 including 1979 – 1,598,675 (1978 – 1,938,562)	Annually 250,000 shares commencing in 1983
	$1.96 shares (c)	On May 1, 1984 at $26.50 per share to May 1, 1985 and at reducing amounts thereafter to $25 after May 1, 1990.	5 for 6	May 1, 1990	652,448 including 1979 – 646,183 (1978 – 6,265)	Quarterly 87,500 shares commencing in 1986
Non-convertible (a)	$2.25 shares	On Oct. 1, 1983 at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	—	—	—	Annually 51,000 shares
	$1.80 shares	On Oct. 2, 1986 at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	—	—	—	Quarterly 26,250 shares

(a) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue and have one vote per share.

(b) From October 22, 1975 to March 1, 1979 the conversion basis was 3.036 common shares for each preferred share.

(c) In the event that not more than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $25.

(d) Purchase funds:
Under the terms and conditions of the purchase funds, Bell Canada shall make all reasonable efforts to purchase the required number of shares for cancellation in the open market at a price not exceeding the par value per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements.
At December 31, 1979, 291,500 $2.25 preferred shares with an aggregate par value of $8,745,000 had been purchased and cancelled (including 57,000 shares with an aggregate par value of $1,710,000 during the year 1979 of which 20,500 shares were for the year 1978).
Taking into account purchases to December 31, 1979, the maximum aggregate par value of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1980 to 1984 are $6,165,000, $3,630,000, $8,330,000, $14,580,000 and $12,661,000 respectively.

13. Long term debt

Bell Canada — Thousands of dollars

First mortgage bonds	4–5¾%	6–7⅞%	8–9⅞%	10–11%	Total outstanding Dec. 31, 1979
Due 1980	$ 30,000	$ —	$ 72,000	$ —	$ 102,000
1981	24,000	28,500	—	—	52,500
1982	90,000	—	—	—	90,000
1983	50,000	—	—	—	50,000
1984	60,000	—	—	—	60,000
1985-1994	100,000	255,500	387,066	60,000	802,566
1995-2004	78,000	206,000	296,000	70,000	650,000
	432,000	490,000	755,066	130,000	1,807,066
Debentures					
Due 1986-1987	—	100,000	60,000	60,000	220,000
2002-2008	—	—	750,000	175,000	925,000
	—	100,000	810,000	235,000	1,145,000
Exchange premium less discount, at time of issue, on debt payable in U.S. funds					43,673
Unrealized foreign currency losses*					145,944
Obligations under capital leases					45,789
Sub-total–Bell Canada					3,187,472
Subsidiaries (including $268,823 due to non-consolidated finance subsidiaries and $21,180 of obligations under capital leases)					622,455
Unrealized foreign currency losses*					6,334
Sub-total–consolidated					3,816,261
Less: due within one year (including $23,445 due to non-consolidated finance subsidiaries)					141,158
Total–consolidated					$3,675,103

—The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge.
—At December 31, 1979, the long term debt of Bell Canada payable in United States funds was $1,128,000,000 comprising $50,000,000 of first mortgage bonds maturing in 1983, $518,000,000 maturing from 1988 to 2004 and $560,000,000 of debentures maturing from 1986 to 2008.
—At December 31, 1979, the amounts of long term debt payable by Bell Canada and subsidiary companies in the years 1980 to 1984 are $141,158,000, $134,065,000, $134,436,000, $93,328,000 and $89,054,000, respectively.
—At December 31, 1979, the long term debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to third parties, was $5,832,000.
*Arising from the translation of U.S. dollar denominated debt at rate prevailing on December 31, 1979.

14. Debt due within one year

Dollars in thousands

	Dec. 31, 1979	Dec. 31, 1978
Long term debt	$141,158	$155,188
Notes payable	155,598	83,921
Bank advances	9,330	41,687
	$306,086	$280,796

Additional data with regard to Notes payable		
i) Maximum amount outstanding at any month-end during the year ended December 31	$171,149	$151,719
ii) Average amount outstanding during the year ended December 31	$136,449	$ 90,951
iii) Weighted average annual interest rate during the year ended December 31	11.2%	7.3%
iv) Weighted average annual interest rate at December 31	13.8%	9.4%

15. Guarantees

Included in Deferred credits—Other at December 31, 1979 is the balance of $139,800,000 of advance payment to be applied against amounts due to Bell Canada over the life of certain contract operations. A guarantee, equivalent to approximately $189 million at December 31, 1979, has been furnished in respect of such advance payment.

In addition, a performance guarantee has been furnished, in respect of such contract operations, equivalent to approximately $60 million at December 31, 1979.

16. Quarterly financial data

Summarized consolidated quarterly financial data (in thousands of dollars except per share amounts) are as follows:

	Three months ended			
1979	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Total operating revenues	$711,219	$743,994	$736,825	$769,529
Net revenues – telecommunications operations	196,407	217,713	206,998	190,366
Manufacturing operations				
Sales	412,999	521,336	424,361	505,464
Gross profit	135,945	162,486	129,741	166,251
Contract and directory operations				
Revenues	98,705	104,892	95,842	139,573
Net revenues – contract and directory operations	23,284	22,629	27,801	26,250
Net income	103,491	118,660	106,831	104,204
Net income applicable to common shares	95,213	110,981	99,362	97,109
Earnings per common share *	$0.65	$0.72	$0.64	$0.62
Assuming full conversion of convertible preferred shares	$0.63	$0.70	$0.62	$0.60
*Based on weighted average common shares outstanding (thousands) †	145,495	153,604	155,201	156,790

1978	Mar. 31	June 30	Sept. 30	Dec. 31
Telecommunications operations				
Total operating revenues	$598,986	$626,238	$670,246	$726,248
Net revenues – telecommunications operations	148,758	160,417	213,948	232,637
Manufacturing and distributing				
Sales	288,011	345,652	363,177	473,157
Gross profit	84,178	106,552	118,766	161,932
Contract and directory operations				
Revenues	24,216	80,088	82,057	96,279
Net revenues – contract and directory operations	5,282	13,599	13,229	13,277
Income before extraordinary items	68,004	81,846	104,270	116,442
Extraordinary items	1,629	17,457	1,437	3,967
Net income	69,633	99,303	105,707	120,409
Net income applicable to common shares	61,953	89,521	94,838	110,038
Earnings per common share * before extraordinary items	$0.46	$0.55	$0.70	$0.78
Assuming full conversion of convertible preferred shares before extraordinary items	$0.45	$0.52	$0.65	$0.73
*Based on weighted average common shares outstanding (thousands) †	131,586	132,330	133,619	135,998

†Reflects the three-for-one common share subdivision.

17. Differences between Canadian and United States generally accepted accounting principles

a) Translation of foreign currencies
If the foreign currency translation had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated net income and earnings per common share would have increased (decreased) as follows:

	Increase (decrease) in consolidated net income	Increase (decrease) in earnings per common share
	Thousands of dollars except per share amounts	
Three months ended		
March 31, 1979	$27,000	$0.19
June 30, 1979	(5,600)	(0.04)
September 30, 1979	8,200	0.05
December 31, 1979	(4,900)	(0.03)
March 31, 1978	$(33,300)	$(0.25)
June 30, 1978	9,600	0.07
September 30, 1978	(55,000)	(0.41)
December 31, 1978	1,800	0.01
Year ended		
December 31, 1979	$24,700	$0.16
December 31, 1978	(76,900)	(0.58)

Consolidated net income as reported for the year 1979 of $433,186,000 ($395,052,000-1978) would have been $457,886,000 ($318,152,000-1978) and earnings per share as reported for the year 1979 of $2.64 ($2.67-1978) would have been $2.80 ($2.09-1978).

b) Extraordinary item
The extraordinary item of $17,474,000, as described in note 5, has been included in income whereas the practice in the United States is to treat such an increase in book value as paid-in capital. If the extraordinary item had been treated in accordance with U.S. practice, consolidated net income for the year 1978 would have decreased by an additional $17,474,000 ($0.13 per common share) to $1.96 per common share.

c) Disposal of a segment of a business
Under U.S. practice, the disposal of a segment of a business requires different reporting; however, net income and earnings per common share are identical under both Canadian and United States reporting practices.

All per share amounts reflect the three-for-one common share subdivision.

18. Pensions

Bell Canada and most of its subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The actuarial reviews as of December 31, 1978 indicated that all vested benefits were fully funded.

The total provisions for the cost of pension plans were $182,197,000 for the year ended December 31, 1979 ($145,452,000-1978).

19. Remuneration of directors and officers

During the year 1979, Bell Canada's shareholders were served by 20 directors. As such, their aggregate remuneration from Bell Canada was $296,000. Some of them served also as directors of Northern Telecom Limited, and certain of its subsidiaries; as such their aggregate remuneration was $108,000 from these companies.

Bell Canada had 32 officers during 1979 and their aggregate remuneration as officers was $3,586,000. Two of the officers served also as directors of Bell Canada in 1979.

In addition, amounts paid or payable by Bell Canada pursuant to special retirement plans for certain of its officers were $270,000 for 1979.

20. Industry segments information

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which includes the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services; and
2) Telecommunications equipment manufacturing, which involves the production and sale of central office switching equipment, subscriber apparatus, business communications systems, transmission equipment and wire and cable.

The following table sets forth revenues and sales, net revenues and supplementary data for each of the company's business segments for the years ended December 31, 1979, 1978 and 1977.

			Millions of dollars
By segments	1979	1978	1977
Revenues and sales			
Telecommunications operations	$2,915(a)	$2,580(a)	$2,205(a)
Telecommunications equipment manufacturing	1,504(b)	1,131(b)	1,017(b)
Other	846	663(b)	291(b)
Consolidated	$5,265	$4,374	$3,513
Intersegment sales			
Telecommunications operations	$ 47	$ 42	$ 37
Telecommunications equipment manufacturing	3	27	27
Other	105	114	86
Eliminations	(155)	(183)	(150)
	$ —	$ —	$ —
Total revenues			
Telecommunications operations	$2,962	$2,622	$2,242
Telecommunications equipment manufacturing	1,507	1,158	1,044
Other	951	777	377
Eliminations	(155)	(183)	(150)
Consolidated	$5,265	$4,374	$3,513
Total net revenues			
Telecommunications operations	$ 811	$ 756	$ 595
Telecommunications equipment manufacturing	232	180	185
Other	128(a)	84(a)	23(a)
Eliminations	—	—	(1)
Consolidated	1,171(c)	1,020(c)	802(c)
Equity in net income of associated companies and a non-consolidated manufacturing subsidiary			
Telecommunications operations	16	13	11
Telecommunications equipment manufacturing	—	1	1
Other	3	3	2
	19	17	14
Other income	54	32	27
Interest charges	(313)	(264)	(222)
Unrealized foreign currency gains (losses)	(10)	—	6
General corporate expenses	(78)	(74)	(71)
Income before income taxes, minority interest and extraordinary items	$ 843	$ 731(d)	$ 556(d)

20. Industry segments information (continued)

By segments	1979	1978	1977
			Millions of dollars
Identifiable assets			
Telecommunications operations	$7,629	$7,028	$6,393
Telecommunications equipment manufacturing	983	718	511
Other	1,089	872	153
Eliminations	(119)	(89)	(74)
Consolidated	9,582	8,529	6,983
Investments in associated companies and non-consolidated subsidiaries			
Telecommunications operations	117	110	105
Telecommunications equipment manufacturing	2	3	2
Other	298	38	39
Consolidated	417	151	146
General corporate assets	378(e)	525(e)	214(e)
Total assets as at December 31	$10,377	$9,205	$7,343
Depreciation			
Telecommunications operations	$ 558	$ 497	$ 449
Telecommunications equipment manufacturing	34	25	24
Other	52	25	5
	644	547	478
Depreciation – general corporate assets	3	3	2
Total depreciation	$ 647	$ 550	$ 480
Capital expenditures			
Telecommunications operations	$ 1,176	$1,054	$1,003
Telecommunications equipment manufacturing	79	54	36
Other	93	65	10
Eliminations	(3)	—	(4)
	1,345	1,173	1,045
Capital expenditures – general corporate assets	6	11	1
Total capital expenditures	$ 1,351	$1,184	$1,046

The following table sets forth information about operations in different geographic areas for the years ended December 31, 1979 and 1978. Data are not presented for 1977 since 90% of the company's revenues and sales were derived from operations located in Canada and were to customers in Canada.

By geographic areas (f)	1979	1978
		Millions of dollars
Revenues and sales		
Canada	$4,014	$3,670
U.S.A.	766	469
Other	485	235
Consolidated	$5,265	$4,374
Transfers between areas		
Canada	$ 67	$ 86
U.S.A.	20	20
Other	—	1
Eliminations	(87)	(107)
	$ —	$ —
Total revenues		
Canada	$4,081	$3,756
U.S.A.	786	489
Other	485	236
Eliminations	(87)	(107)
Consolidated	$5,265	$4,374

20. Industry segments information (continued)

By geographic areas (f)	Millions of dollars 1979	1978
Net revenues before research and development expenses		
Canada	$1,120	$1,047
U.S.A.	144	96
Other	92	28
Eliminations	(1)	—
Consolidated	1,355	1,171
Research and development expenses	(184)	(151)
Total net revenues	1,171 (c)	1,020 (c)
Equity in net income of associated companies and a non-consolidated manufacturing subsidiary		
Canada	16	13
U.S.A.	2	3
Other	1	1
	19	17
Other income	54	32
Interest charges	(313)	(264)
Unrealized foreign currency losses	(10)	—
General corporate expenses	(78)	(74)
Income before income taxes, minority interest and extraordinary items	$ 843	$ 731 (d)
As at December 31		
Identifiable assets		
Canada	$8,185	$7,538
U.S.A.	893	628
Other	570	401
Eliminations	(66)	(38)
Consolidated	9,582	8,529
Investments in associated companies and non-consolidated subsidiaries		
Canada	117	110
U.S.A.	44	38
Other	256	3
Consolidated	417	151
General corporate assets	378 (e)	525 (e)
Total assets	$10,377	$9,205

a) Telecommunications operations segment revenues include $19 million ($13 – 1978, Nil – 1977) consisting principally of contract service agreement revenues and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.

b) Telecommunications equipment manufacturing includes sales of $660 million ($583 – 1978, $581 – 1977) and, for 1978 and 1977 only, Other included sales of $4 million in both years, to Bell Canada, its telephone subsidiary and associated companies. These sales are not eliminated on consolidation. Telecommunications equipment manufacturing sales of Northern Telecom Limited to Bell Canada are at prices and terms as low as those offered to Northern Telecom's most favored customers for like materials and services under comparable conditions.

c) Total net revenues of $1,093 million ($946 – 1978, $731 – 1977) as shown in the Consolidated Income Statement are after deducting expenses of $78 million ($74 – 1978, $71 – 1977) applicable to Telecommunications equipment manufacturing and Other segments which are shown as general corporate expenses.

d) Income before income taxes, minority interest and extraordinary items includes continuing and discontinued operations for 1978 and 1977.

e) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

f) The point of origin of revenues and sales and the location of the assets determine the geographic areas.

21. Replacement cost data (unaudited)

The company has developed estimates of the replacement cost of the productive capacity represented by its plant investment. Inventories, depreciation expense and cost of sales (manufacturing operations) have also been estimated on the basis of replacement cost. These estimates have been prepared in compliance with rules and guidelines issued by the United States Securities and Exchange Commission.

The company recommends caution in interpreting the significance of the difference between replacement cost and historic cost for the following reasons:
i) The estimates are based on the assumed replacement of productive capacity at December 31, 1979 and December 31, 1978 respectively, using a mix of technology appropriate to business conditions existing at those dates.
Actual replacement will take place over many years, using a mix of technology appropriate to business conditions existing at those future dates.
ii) The establishment of the estimates involves numerous assumptions and therefore the result must be recognized as only an indication of the replacement cost of productive capacity.

Millions of dollars

	Dec. 31, 1979 Historic cost	Dec. 31, 1979 At estimated replacement cost	Dec. 31, 1978 Historic cost	Dec. 31, 1978 At estimated replacement cost
Telecommunications property				
Subject to replacement cost disclosure	$ 9,870	$15,087	$8,934	$13,609
Land, and plant under construction, included at historic cost	335	335	283	283
	10,205	15,422	9,217	13,892
Less: Accumulated depreciation	2,950	5,445	2,614	4,930
	7,255	9,977	6,603	8,962
Manufacturing property				
Subject to replacement cost disclosure	664	1,048	580	1,001
Land and other property, included at historic cost	30	30	23	23
	694	1,078	603	1,024
Less: Accumulated depreciation	275	529	235	502
	419	549	368	522
Net plant investment	$ 7,674	$10,526	$6,971	$ 9,484
Inventories	$ 493	$ 507	$ 361	$ 373

Replacement cost of productive capacity and inventories
The replacement cost data presented above is an estimate of the cost that would be incurred if the productive capacity and inventories were replaced at cost levels existing at December 31, 1979 and December 31, 1978 respectively. Land, and plant under construction are not revalued but are included at historic cost.

Depreciation expense and cost of sales (manufacturing operations)
The company has estimated the depreciation charge which would be required if the average depreciable plant for the year were valued at its replacement cost, and the cost of sales (manufacturing operations) on the basis of replacement cost. These estimates are presented below.

Bell Canada stresses that it would be misleading to conclude that net income as reported in the historic cost financial statements should be adjusted by the additional depreciation expense of $241 million ($221 – 1978) to produce a more meaningful measure of income. The major portion of the increase in cost of sales (manufacturing operations) is due to the increase in depreciation expense. In addition to these adjustments, the following factors would have to be considered:

21. Replacement cost data (unaudited) (continued)

i) The estimates do not cover all assets, liabilities, revenues and expenses and therefore the estimates are incomplete. The effects of these additional elements would have to be included in the measurement of income.

ii) The estimates of replacement cost assume a mix of plant and technology which is different from the plant in place. If the assumed plant and technology were in place, operating and maintenance cost savings would be realized and additional revenues would probably be generated since the newer plant has greater service capabilities. In the opinion of management, such cost savings and additional revenues would be significant in total. It is, however, not possible at this time to estimate them with reasonable accuracy.

These factors together with others such as the cost of additional financing, if necessary, and income tax considerations, make it misleading to recalculate net income.

Millions of dollars

	1979		1978	
	Historic cost	At estimated replacement cost	Historic cost	At estimated replacement cost
Depreciation expense				
Telecommunications property	$ 559	$ 783	$498	$ 706
Manufacturing property	88	105	52	65
	$ 647	$ 888	$550	$ 771
Cost of sales				
Manufacturing operations	$1,270	$1,303	$999	$1,009

Replacement cost estimation procedures

In the case of telecommunications property where there have been significant technological improvements, the company assumed that productive capacity would be replaced with the most modern technology that could be justified in terms of the foreseen demand for the services. For this reason, latest technology was not assumed to replace all existing capacity.

The specific method used to develop replacement cost data was tailored to the characteristics of the assets being evaluated, as follows:

Central office equipment—current acquisition cost of equipment used to meet currently foreseen demand. The equipment replacement pattern that was assumed provides for approximately half of Bell Canada's subscribers to be served by the most technically advanced electronic switching systems, as opposed to slightly more than 18% (16%—1978) that are currently served in this manner.

Outside plant—current construction cost per conductor kilometre.

Station equipment—current acquisition cost per unit.

Buildings—current construction cost per square metre of space.

Tools and vehicles—current acquisition cost per unit.

In the case of manufacturing property, replacement costs were estimated by using current acquisition costs or indices specifically developed for several major categories. Present business conditions, current technology and the company's normal approach to replacement of capacity were assumed.

Replacement cost of inventories was estimated to reflect current cost of material, labour and expense.

Both the historic and the replacement cost data include assets held under capital leases as defined in note 1 of Notes to Financial Statements.

Depreciation expense was estimated based on the average replacement cost for the year of the depreciable assets. The depreciation charge was calculated on a straight line basis, using the same useful lives for the assets as is used in the historic cost financial statements. Cost of sales (manufacturing operations) was estimated on the basis of replacement cost by adjusting historic cost for the increase in costs between the time of manufacture and the time of sale.

Summarized Income Statement Non-Consolidated (Note 1)

For the years ended December 31

		Thousands of dollars	
		1979	1978
Telecommunications operations	Operating revenues		
	Local service	$1,392,707	$1,263,096
	Long distance service	1,329,670	1,152,507
	Miscellaneous – net	94,731	81,827
	Total operating revenues	2,817,108	2,497,430
	Operating expenses	2,054,466	1,784,497
	Net revenues – telecommunications operations	762,642	712,933
	Other income		
	Dividends		
	subsidiary companies	24,232	21,357
	associated companies	8,485	7,559
	Allowance for funds used during construction	19,964	13,530
	Miscellaneous – net	28,159	14,342
	Total other income	80,840	56,788
	Income before underlisted items	843,482	769,721
	Interest charges	252,589	231,020
	Unrealized foreign currency losses	9,890	5,487
	Income before income taxes	581,003	533,214
	Income taxes	256,370	240,118
	Income – telecommunications operations	324,633	293,096
Contract operations	Revenues	319,795	185,653
	Operating expenses	252,141	165,843
	Net revenues – contract operations	67,654	19,810
	Miscellaneous – net	(7,199)	(2,761)
	Income before income taxes	60,455	17,049
	Income taxes	29,278	9,328
	Income – contract operations	31,177	7,721
	Income before extraordinary item	355,810	300,817
	Extraordinary itemϕ	29,835	4,122
	Net income	**385,645**	**304,939**
	Dividends on preferred shares	30,521	38,702
	Net income applicable to common shares	**$ 355,124**	**$ 266,237**
	Earnings per common share*		
	before extraordinary item	$2.13	$1.96
	extraordinary item	$0.19	$0.03
	after extraordinary item	$2.32	$1.99
	Assuming full conversion of convertible preferred shares		
	before extraordinary item	$2.08	$1.91
	extraordinary item	$0.18	$0.02
	after extraordinary item	$2.26	$1.93
	Dividends declared per common share†	**$1.55**	**$1.43**
	*Based on weighted average common shares outstanding (thousands) †	152,810	133,396

ϕGain after deducting income taxes of $4,145,000 ($565,000 – 1978) arising from the sale, upon exercise of warrants which were exercisable prior to December 1, 1979, of common shares of Northern Telecom Limited.

†Reflects the three-for-one common share subdivision.

Summarized Balance Sheet Non-Consolidated (Note 1)

As at December 31

		Thousands of dollars	
Assets		1979	1978
Telecommunications property – at cost	Buildings, plant and equipment	$9,275,667	$8,415,085
	Less: Accumulated depreciation	2,815,650	2,496,256
		6,460,017	5,918,829
	Land, and plant under construction	318,971	270,179
	Material and supplies	122,325	101,919
		6,901,313	6,290,927
Investments – at cost	Subsidiary companies	309,614	212,709
	Associated companies	107,971	107,971
		417,585	320,680
Current assets		749,502	693,769
Other assets	Cash and temporary cash investments held for contract operations – at cost (approximates market)	49,532	91,851
	Deferred charges		
	contract operations	90,583	112,912
	unrealized foreign currency losses, less amortization	130,567	160,648
	other	40,997	42,451
		311,679	407,862
	Total assets	**$8,380,079**	**$7,713,238**
Liabilities and Shareholders' Equity			
Common shareholders' equity	Common shares outstanding	$1,320,647	$1,176,622
	Premium on capital stock	807,778	607,388
	Retained earnings	861,322	751,554
		2,989,747	2,535,564
Convertible preferred shares (redeemable)		216,718	290,765
Non-convertible preferred shares (redeemable)		112,255	113,965
Long term debt	Includes unrealized foreign currency losses of $145,944 ($166,135 – 1978)	3,082,908	2,968,425
Current liabilities		707,756	686,903
Deferred credits	Income taxes	935,629	827,860
	Other	335,066	289,756
		1,270,695	1,117,616
	Total liabilities and shareholders' equity	**$8,380,079**	**$7,713,238**

Summarized Statement of Changes in Financial Position Non-Consolidated (Note 1)

For the years ended December 31

		Thousands of dollars 1979	1978
Source of funds	Operations		
	Income before extraordinary item	$ 355,810	$ 300,817
	Items not affecting current funds		
	Depreciation	531,032	473,993
	Deferred income taxes	107,769	68,891
	Allowance for funds used during construction	(19,964)	(13,530)
	Other – net	(18,344)	15,800
	Total from operations	956,303	845,971
	Net proceeds from the sale of common shares of a subsidiary	34,585	4,778
	Proceeds from long term debt	238,668	415,409
	Proceeds from issue of common shares		
	underwritten issue	194,109	—
	under the dividend reinvestment and stock purchase plan	64,125	30,134
	Proceeds from issue of preferred shares	—	170,903
	Issue of common shares upon conversion of convertible preferred shares	74,044	125,820
	Advance payment on contract operations	—	190,587
	Decrease in cash and temporary cash investments held for contract operations	42,319	—
	Miscellaneous	116,763	95,107
		$1,720,916	$1,878,709
Disposition of funds	Capital expenditures		
	Gross capital expenditures	$1,116,743	$1,003,672
	Deduct: charges not requiring funds	(11,749)	(22,709)
	Increase in material and supplies	20,406	4,729
	Net expenditures	1,125,400	985,692
	Dividends	271,092	231,815
	Reduction of long term debt	105,358	114,992
	Acquisition of investments	106,493	4,024
	Conversion of preferred shares	74,047	125,848
	Increase in cash and temporary cash investments held for contract operations	—	91,851
	Deferred charges – contract operations	—	112,912
	Miscellaneous	3,646	7,429
	Increase in working capital	34,880	204,146
		$1,720,916	$1,878,709

Consolidated Summary of Operations

					Millions of dollars except per share amounts
	1979	1978	1977	1976	1975
Telecommunications operations					
Operating revenues	$2,961.6	$2,621.7	$2,241.7	$1,995.5	$1,741.0
Operating expenses	2,150.1	1,866.0	1,646.3	1,430.7	1,225.1
Net revenues – telecommunications operations	811.5	755.7	595.4	564.8	515.9
Manufacturing operations (a)					
Sales	1,864.1	1,470.0	1,194.7	1,073.4	999.2
Cost of sales	1,269.7	998.5	846.3	771.7	725.4
Selling, general, administrative and other expenses	412.6	326.8	227.4	184.1	151.1
Net revenues – manufacturing operations	181.8	144.7	121.0	117.6	122.7
Contract and directory operations					
Revenues	439.0	282.6	76.7	61.2	50.0
Operating expenses	339.0	237.2	62.2	48.7	39.4
Net revenues – contract and directory operations	100.0	45.4	14.5	12.5	10.6
Total net revenues	1,093.3	945.8	730.9	694.9	649.2
Other income	73.1	49.1	40.9	59.4	38.3
Interest charges	312.8	263.4	221.8	196.3	179.9
Income before underlisted items	853.6	731.5	550.0	558.0	507.6
Unrealized foreign currency losses (gains)	10.7	0.3	(6.0)	(1.8)	0.6
Income taxes	355.4	323.6	242.1	247.5	229.1
Minority interest	54.3	37.0	27.7	24.9	11.5
Income before extraordinary items	433.2	370.6	286.2	287.4	266.4
Extraordinary items	—	24.5(b)	2.3(c)	2.2(c)	50.6(d)
Net income	433.2	395.1	288.5	289.6	317.0
Dividends on preferred shares	30.5	38.7	31.5	28.9	24.8
Net income applicable to common shares	$ 402.7	$ 356.4	$ 257.0	$ 260.7	$ 292.2
Earnings per common share*					
before extraordinary items	$2.64	$2.49	$1.99	$2.15	$2.07
extraordinary items	—	$0.18	$0.02	$0.02	$0.43
after extraordinary items	$2.64	$2.67	$2.01	$2.17	$2.50
Assuming full conversion of convertible preferred shares and for 1976 and 1975 exercise of warrants					
before extraordinary items	$2.55	$2.36	$1.93	$1.99	$1.96
extraordinary items	—	$0.16	$0.02	$0.01	$0.37
after extraordinary items	$2.55	$2.52	$1.95	$2.00	$2.33
Dividends declared per common share†	$1.55	$1.43	$1.36	$1.19	$1.15
*Based on weighted average common shares outstanding (thousands) †	152,810	133,396	127,662	120,317	116,995

The effect on sales, consolidated net income and earnings per common share resulting from i) the discontinuation as of December 31, 1978 of the electrical and electronic products distribution business of Northern Telecom Limited and, ii) the discontinuation in 1975 of the semiconductor business of a subsidiary of Northern Telecom Limited, is as follows:

	1978	1977	1976	1975
Manufacturing sales				
Continuing operations	$1,331.4	$1,047.1	$ 915.5	$ 835.0
Discontinued operations	138.6	147.6	157.9	164.2
	$1,470.0	$1,194.7	$1,073.4	$ 999.2
Consolidated income				
Continuing operations	$ 369.8	$ 284.9	$ 284.9	$ 263.9
Discontinued operations	(1.1)	1.3	2.5	0.1
Extraordinary items	26.4	2.3	2.2	53.0
Net income	$ 395.1	$ 288.5	$ 289.6	$ 317.0
Earnings per common share (e) †				
Continuing operations	$ 2.36	$1.92	$1.97	$1.94
Discontinued operations	$(0.01)	$0.01	$0.02	—
Extraordinary items	$ 0.17	$0.02	$0.01	$0.39
	$ 2.52	$1.95	$2.00	$2.33

(a) Including operations of the distributing business to the end of 1978 when such business was discontinued.
(b) See note 5 of Notes to Financial Statements.
(c) Utilization of prior years' tax losses of subsidiaries.
(d) Consolidated gain of $53,007,000 from the sale by Bell Canada of common shares of Northern Telecom Limited less provision of $2,429,000 for the costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited.
(e) Assuming full conversion of convertible preferred shares and for 1976 and 1975 exercise of warrants.
†Reflects the three-for-one common share subdivision.

Management's Discussion and Analysis of Consolidated Summary of Operations

Telecommunications operations

Operating revenues
Operating revenues increased $339.9 million (13%) in 1979 over 1978 as compared to an increase of $380 million (17%) in 1978 over 1977. These increases reflect the impact of rate increases awarded to Bell Canada effective in June of 1977 and August of 1978. The contribution of the June 1977 rate award to the 1978 increase is estimated at $77 million while the contribution of the August 1978 rate award to the 1978 and 1979 increases is estimated at $89 million and $158 million, respectively.

The proportionately lower increase in operating revenues as well as the lower percentage increase in 1979 as compared to 1978 reflects the lower rate of growth for demand in telecommunications services as a result of the lower level of economic activity in the company's territory and to a lesser extent, the lower beneficial impact from rate increases in 1979 as compared to the impact in 1978. In 1979, there were 687.4 million long distance messages, 44.2 million (6.9%) more long distance messages than in 1978 as compared to an increase of 55.7 million (9.5%) in 1978 over 1977. At December 31, 1979, the number of telephones in service was 9.6 million, 3.4% more than at December 31, 1978, compared to an increase of 3.9% between December 31, 1978 and 1977. The strike of Bell's craft and service employees in 1979 had an impact on revenues in the latter half of the year. On February 19, 1980, Bell Canada applied to the Canadian Radio-television and Telecommunications Commission to revise its rates for service.

Operating expenses
Operating expenses increased $284.1 million (15.2%) in 1979 over 1978 and $219.7 million (13.3%) in 1978 over 1977. About half of these increases is attributable to higher employee-related expenses which have increased mostly as a result of higher wage rates and to a lesser extent, more employees. Depreciation increased $60.7 million in 1979 over 1978 and $48.4 million in 1978 over 1977. The 1979 increase in depreciation was largely due to increased depreciable plant in service and to a lesser extent, increased composite depreciation rates while the 1978 increase was essentially due to increased depreciable plant in service.

Other factors contributing to the increases in total operating expenses were increases in taxes other than income taxes of $34.5 million in 1979 over 1978 and $15.8 million in 1978 over 1977, together with higher rents and the effect of inflation and growth on other operating expenses.

Maintenance expense increased to $490.2 million in 1979 from $442.4 million in 1978 and $392.1 million in 1977. The 1979 increase primarily reflects higher wage rates while the 1978 increase was primarily due to wages and to a lesser extent, increased work volumes.

Manufacturing operations

Net revenues—manufacturing operations
Sales increased $394.1 million (26.8%) in 1979 and $275.3 million (23%) in 1978. Sycor, Data 100 and Spectron, all acquired in 1978, contributed $200.5 million to the 1979 increase and $185.2 million to the 1978 increase in sales, out of which $107 million in 1979 and $147.3 million in 1978 represent increased sales originating in the U.S. In addition to the contribution from these acquisitions, other U.S. sales increased $185.5 million in 1979 ($106.3 million in 1978 including $42.9 million from Danray acquired in January of 1978) reflecting the increased demand for Northern's digital communications systems. Increases in Canadian sales in 1979 (resulting from greater requirements for subscriber and cable products and to a lesser extent, the increased price of copper based wire) were all offset by the effect of the discontinuance as of December 31, 1978 of the electrical and electronic products distribution business representing sales of $162.8 million in 1978. In 1978, Canadian sales had been slightly lower than those of 1977, reflecting the slow growth of the Canadian economy. The remainder of the increases in sales for 1979 and 1978 was due to sales outside North America principally as a result of sales from 1978 acquisitions in the electronic office systems field.

Manufacturing operations (continued)

In 1979, cost of sales increased $271.2 million principally because of increased sales. Gross profit as a percentage of sales was favourably affected in 1979, as a result of the consolidation of Sycor and Data 100 for the full year and the discontinuance of the electrical and electronic products distribution business. However, this gain was fully offset by the higher operating expenses, which are expected to continue into 1980, in Canada and the U.S. due to costs related to substantially increased manufacturing capacity to meet the demand for new products, particularly the digital systems. In 1978, cost of sales had increased $152.2 million mainly as a result of higher sales and the inflationary pressures on material, labour and overhead somewhat offset by the higher gross profit margins of companies acquired in 1978 as compared to those of Northern's other operations in 1978.

Selling, general and administrative expenses (SG&A) were $280 million in 1979, up from $228.9 million in 1978 and $159.2 million in 1977. The 1979 increase was due almost entirely to the full year's integration of Sycor and Data 100 costs; these businesses require a relatively higher level of SG&A than the telecommunications manufacturing industry. Increases in SG&A for other operations were largely offset by the discontinuance of the distribution business. The 1978 increase of $69.7 million included $48.5 million from acquisitions. The balance was due to the continuing build-up of marketing and administrative forces to generate and support future sales growth in the U.S. and offshore.

Other expenses, mainly research and development expenses related to manufacturing operations, were $132.6 million in 1979 up from $97.8 million in 1978 and $68.2 million in 1977. These increases reflect the continuing research and development of the digital family of switching systems and subscriber apparatus and higher levels of research and development in the companies acquired in 1978.

Contract and directory operations

Net revenues – contract and directory operations

The increases in net revenues – contract and directory operations in 1979 over 1978 and in 1978 over 1977 result primarily from increased contract activities particularly those of the Saudi Arabian contract which commenced in early 1978, and to a lesser extent, increased directory operations.

Other income

Other income increased $24 million in 1979 over 1978, of which $6.6 million was due to allowance for funds used during construction and approximately $9 million to interest income. The balance results from a variety of miscellaneous items. About 60% of the increase in allowance for funds used during construction results from increased rates used for the purpose of calculating such allowance while the remaining 40% reflects the increased levels of plant under construction during 1979. The 1978 increase in other income of $8.2 million was the reflection of decreased miscellaneous income charges during that year and higher interest income resulting mainly from increased temporary cash investments.

Interest charges

Interest charges increased $49.4 million in 1979 over 1978. Approximately $20 million of this increase is primarily attributable to interest expense on additional debt issued by Bell to finance part of its capital expenditures and to a lesser extent, higher rates of exchange on interest payable in U.S. funds. Out of the balance of the increase in interest charges for 1979, approximately $21 million reflects Northern Telecom's higher borrowing levels to finance its acquisitions and working capital requirements, and to a lesser extent, higher levels of interest rates on Northern's debt. Approximately two thirds of the 1978 $41.6 million increase in interest charges was primarily due to interest expense on additional debt issued by Bell while the balance largely reflected the inclusion of interest charges of the then recently acquired subsidiaries of Northern Telecom and increased borrowings within the Northern Telecom group.

Unrealized foreign currency losses or gains
In 1979, a loss of $10.7 million was recorded as compared to a loss of $0.3 million in 1978. The 1979 loss reflects amortization of $11.3 million ($7.2 million in 1978) of unrealized foreign currency losses on long term debt less unrealized gains of $0.6 million ($6.9 million in 1978) on the translation of foreign currency financial statements and net assets denominated in foreign currencies. The 1977 gain of $6 million was also due to translation of foreign currency financial statements and net assets denominated in foreign currencies.

Income taxes
Income taxes increased $31.8 million in 1979 over 1978 and $81.5 million in 1978 over 1977. The 1979 increase reflects the increased taxes associated with increased earnings in 1979 partly offset by lower taxes of foreign subsidiaries resulting from their lower statutory tax rates as compared to the Canadian statutory tax rate. Also reducing the 1979 income tax provision but to a lesser extent, was the effect of increased research and development tax credits and increased tax deductible allowance on additional research and development. The 1978 tax increase was mainly attributable to increased earnings between 1978 and 1977.

Minority interest
The 1979 increase of $17.3 million and the 1978 increase of $9.3 million in minority interest are mainly attributable to increased earnings of Northern Telecom and to a lesser extent, the reduction in Bell's percentage ownership in that subsidiary in those years. The 1979 reduction in percentage ownership resulted principally from the exercise of warrants to purchase from Bell an equivalent number of Northern Telecom common shares. The 1978 reduction was principally due to the issuance of common shares by Northern Telecom upon the acquisition of Sycor, Inc.

Extraordinary items
Extraordinary items increased $22.2 million in 1978 mainly as a result of an increase of $17.5 million in book value of Bell Canada's investment in subsidiaries, resulting principally from the issuance by Northern Telecom of its common shares upon the acquisition of Sycor, Inc. (see note 5 of Notes to Financial Statements).

Earnings per share
Earnings per share before extraordinary items in 1979 of $2.64 are based on 152.8 million weighted average common shares outstanding as compared to $2.49 per share in 1978 based on 133.4 million weighted average common shares outstanding. Most of the increase in the weighted average common shares outstanding in 1979 was attributable about equally to conversions of preferred shares and the public issue of common shares in Canada in March of 1979.

Price Ranges and Dividends Paid Common and Preferred Shares

Price Ranges (a)		1st quarter		2nd quarter		3rd quarter		4th quarter	
		High	Low	High	Low	High	Low	High	Low
1979	Common (b) †	$21.96	$20.83	$23⅛	$21⅜	$22¾	$20⅝	$21⅞	$18⅞
	$3.20 Preferred	$65¼	$62⅝	$68	$65¾	$65½	$62	$64½	$56¾
	$3.34 Preferred	$65¼	$63⅛	$67⅞	$65¾	$64½	$62¾	$64½	$60¾
	$4.23 Preferred	$65½	$62½	$68⅞	$64½	$65⅝	$62¼	$62⅝	$57¾
	$2.28 Preferred	$32⅞	$31½	$34½	$32½	$33	$31⅜	$32¼	$28¼
	$2.25 Preferred	$30¾	$30	$31½	$30½	$31	$29½	$29⅜	$26
	$1.80 Preferred	$23⅞	$23	$24¾	$23¼	$24	$22¼	$22½	$20¼
	$1.96 Preferred	$28	$26¼	$28⅜	$26½	$27⅛	$25⅝	$26¼	$22⅞
1978	Common†	$18.46	$17.33	$19.58	$17.83	$20.75	$18.71	$21.88	$19.63
	$3.20 Preferred	$54	$52⅜	$58⅜	$53¾	$60⅜	$56½	$64	$59
	$3.34 Preferred	$55¼	$53	$58½	$54½	$62¼	$56⅝	$65⅜	$60¼
	$4.23 Preferred	$55½	$53¼	$58¾	$54¼	$62	$56½	$64½	$59½
	$2.28 Preferred	$30	$28⅝	$31	$28¾	$32¼	$30⅛	$33	$30⅝
	$2.25 Preferred	$30⅛	$29	$30¾	$28½	$31½	$30½	$31	$30
	$1.80 Preferred	$23	$21⅞	$23⅞	$22	$24⅝	$23⅜	$24¼	$23
	$1.96 Preferred	—	—	$27	$25⅝	$27¾	$26	$28¼	$25¾

Dividends Paid		1st quarter	2nd quarter	3rd quarter	4th quarter
Common Shares†	1979	$0.38	$0.38	$0.38	$0.38
	1978	$0.34	$0.35	$0.35	$0.35
Preferred Shares	The indicated rates are annual rates and dividends have been paid quarterly since dates of issue.				

(a) The table shows market prices on the Toronto Stock Exchange. The common and preferred shares are also listed on the Montréal and Vancouver Stock Exchanges in Canada. The common shares are also listed on the Stock Exchanges of Amsterdam, Basle, Brussels, Dusseldorf, Frankfurt am Main, Geneva, London, New York, Paris and Zurich.

(b) Bell Canada common shares have been listed on the New York Stock Exchange since August 18, 1976. High and low prices (U.S. dollars) were $19⅞ and $15⅞ respectively, during the year ended December 31, 1979.

†Market quotations for 1978 and the first quarter of 1979 and dividends on common shares for 1978 and the first two quarters of 1979 have been adjusted to reflect the three-for-one subdivision of common shares.

Board of Directors

Marcel Bélanger, O.C., C.A.
Québec, Québec
President, Gagnon et Bélanger Inc.
Member since March 1969

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Company Director
Member since May 1974

A. Jean de Grandpré, Q.C.
Outremont, Québec
Chairman of the Board and
Chief Executive Officer, Bell Canada
Member since July 1972

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board,
The Consumers' Gas Company
Member since March 1970

H. Clifford Hatch
Windsor, Ontario
Chairman and Chief Executive Officer,
Hiram Walker-Gooderham
& Worts Limited
Member since April 1974

James W. Kerr
Toronto, Ontario
Consultant,
TransCanada PipeLines Limited
Member since August 1970

Paul H. Leman, O.C.
Outremont, Québec
Company Director
Member since April 1976

Walter F. Light
Town of Mount Royal, Québec
President and Chief Executive Officer,
Northern Telecom Limited
Appointment effective January 1, 1980

Helen L. Margison
Toronto, Ontario
President, Shed Investments Ltd.
Member since April 1978

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay, Machum
Member since April 1973

John H. Moore
Lambeth, Ontario
Chairman of the Board,
John Labatt Limited
Member since March 1966

J. Dean Muncaster
Toronto, Ontario
President and Chief Executive Officer,
Canadian Tire Corporation, Limited
Member since April 1977

Gérard Plourde, O.C.
Montréal, Québec
Chairman of the Board, U A P Inc.
Member since January 1973

Louis Rasminsky, C.C., C.B.E.
Ottawa, Ontario
Company Director
Member since September 1973

Robert J. Richardson, Sc.D.
Greenville, Delaware, U.S.A.
Senior Vice-President,
E. I. du Pont de Nemours and Company
Member since January 1978

John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Partner, Stikeman, Elliott,
Robarts & Bowman
Member since June 1971

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Member since July 1965

Lucien G. Rolland
Westmount, Québec
President and Chief Executive Officer,
Rolland inc.
Member since July 1965

Robert C. Scrivener
Toronto, Ontario
Chairman of the Board and
Chief Executive Officer,
Northern Telecom Limited
Member since November 1967
Resigned December 31, 1979

James C. Thackray
Westmount, Québec
President, Bell Canada
Member since April 1976

Louise B. Vaillancourt
Outremont, Québec
Company Director
Member since January 1975

Committees of the Board of Directors*

Executive Committee
A. J. de Grandpré–Chairman
P. H. Leman
J. H. Moore
G. Plourde
L. Rasminsky
H. R. Robertson
R. C. Scrivener
J. C. Thackray

Audit Committee
M. Bélanger–Chairman
P. H. Leman
E. N. McKelvey
J. H. Moore
L. G. Rolland
L. B. Vaillancourt

Management Resources and Compensation Committee
J. W. Kerr–Chairman
M. Bélanger
G. A. Burton
J. D. Gibson
H. C. Hatch

Pension Fund Policy Committee
J. D. Muncaster–Chairman
J. D. Gibson
E. N. McKelvey
L. Rasminsky
R. J. Richardson
J. P. Robarts

Social and Environmental Affairs Committee
L. B. Vaillancourt–Chairman
A. J. de Grandpré
H. L. Margison
J. P. Robarts
H. R. Robertson
J. C. Thackray

*as at December 31, 1979

Director, Officer Changes

At the end of the year Robert C. Scrivener retired as Chairman of the Board of Northern Telecom Limited. His place has been taken by A. Jean de Grandpré, who remains Chairman and Chief Executive Officer of Bell Canada as well. Coincident with his retirement, Mr. Scrivener resigned from Bell's Board of Directors and was succeeded as a Director by Northern Telecom's President and Chief Executive Officer, Walter F. Light.

A major realignment of Bell Canada executive officers took place in April. Orland Tropea was appointed Executive Vice-President (Corporate), J. V. R. Cyr became Executive Vice-President (Administration) and Léonce Montambault was named Executive Vice-President (Québec Region). All Executive Vice-Presidents report to the President.

During the year, P. André Aubin and Douglas W. Delaney were appointed Vice-Presidents. Harry Bowler, Vice-President (Finance), retired in March and was replaced by J. Stuart Spalding as Vice-President & Treasurer. On January 31, 1980 Guy Houle was appointed Corporate Secretary succeeding James T. Moore, who has retired after serving the Company for 33 years.

Officers*

Chairman	A. Jean de Grandpré, Q.C. Chairman of the Board and Chief Executive Officer			
President	James C. Thackray President			
Executive Vice-Presidents	J. V. Raymond Cyr Executive Vice-President Administration Frederick E. Ibey Executive Vice-President Operations	Gordon E. Inns Executive Vice-President Ontario Region Léonce Montambault Executive Vice-President Québec Region	Orland Tropea Executive Vice-President Corporate	
Vice-Presidents	Wilfred D. E. Anderson Vice-President Engineering P. André Aubin Vice-President Customer Services, Québec Region J. Robert Brûlé Vice-President Operations Development, Québec Region Robert W. Crowley Vice-President Customer Services, Ontario Region Douglas W. Delaney Vice-President International Claude Duhamel Vice-President Administration, Québec Region	John H. Farrell Vice-President Regulatory Matters Charles A. Harris Vice-President Public and Environmental Affairs George L. Henthorn Vice-President & Comptroller W. Brian Hewat Vice-President Operations Performance John A. McCutcheon Vice-President Marketing and Development Andrew M. McMahon Vice-President Computer Communications	Harry Pilkington Vice-President Personnel Hubert A. Roth Vice-President Network Services, Ontario Region Claude St-Onge Vice-President Network Services, Québec Region Ernest E. Saunders, Q.C. Vice-President Law and Corporate Affairs John E. Sinclair Vice-President Systems	John E. Skinner Vice-President Administration, Ontario Region R. Douglas Sloane Vice-President Marketing, Ontario Region J. Stuart Spalding Vice-President & Treasurer John F. Stinson Vice-President Operations Development, Ontario Region Robert N. Washburn Vice-President South/West Area, Ontario Region
	Guy Houle General Counsel	James T. Moore Corporate Secretary		

*as at December 31, 1979

Statistical Summary

Consolidated		1979	1978	1977	1976	1975
Balance Sheet items (millions of dollars)	Total property – net*	$7,673.7	$6,971.0	$6,248.4	$5,688.0	$5,116.7
	Common equity*	3,342.1	2,840.4	2,519.0	2,296.4	2,141.3
	Preferred shares*	329.0	404.7	356.5	377.0	343.2
	Minority interest*	467.7	296.7	184.8	154.1	123.7
	Long term debt* (including current portion)	3,816.3	3,536.3	2,821.3	2,567.3	2,371.6
	Capital expenditures	1,351.0	1,184.0	1,045.7	992.7	901.1
Common share data	Equity per common share*†	$ 21.09	$ 20.12	$ 19.19	$ 18.84	$ 17.95
	Percent of common shares held in Canada*	95.6	94.3	93.9	96.7	97.9
	Number of shareholders* (including preferred)	250,172	228,285	221,224	225,457	231,689

Non-Consolidated		1979	1978	1977	1976	1975
Income Statement items (millions of dollars)						
Telecommunications operations	Operating revenues	$2,817.1	$2,497.4	$2,133.4	$1,903.9	$1,665.8
	Operating expenses	2,054.4	1,784.5	1,572.5	1,367.6	1,171.6
	Other income	80.8	56.8	53.0	65.2	53.3
	Interest charges	252.6	231.0	202.4	177.3	160.9
	Unrealized foreign currency losses	9.9	5.5	—	—	—
	Income taxes	256.4	240.1	178.6	185.7	173.9
	Income – telecommunications operations	324.6	293.1	232.9	238.5	212.7
Contract operations	Revenues	319.8	185.6	—	—	—
	Operating expenses	252.1	165.8	—	—	—
	Miscellaneous – net	(7.2)	(2.8)	—	—	—
	Income taxes	29.3	9.3	—	—	—
	Income – contract operations	31.2	7.7	—	—	—
	Income before extraordinary items	355.8	300.8	232.9	238.5	212.7
	Extraordinary items	29.8	4.1	—	—	92.6
	Net income	385.6	304.9	232.9	238.5	305.3
Financial ratios	Percent return on total capital	9.7	9.3	8.4	8.7	8.5
	Percent return on common equity	11.5	11.1	9.0	10.1	10.0
	Interest as a percent of total average debt	8.1	7.9	7.8	7.5	7.3
	Times interest charges earned	3.5	3.4	3.0	3.4	3.4
Balance Sheet items (millions of dollars except per common share amounts)	Telecommunications property – net*	$6,901.3	$6,291.0	$5,777.5	$5,258.1	$4,732.2
	Investments*	417.6	320.7	320.4	323.5	323.0
	Common equity*	2,989.7	2,535.6	2,303.9	2,134.6	2,029.4
	Preferred shares*	329.0	404.7	356.5	377.0	343.2
	Long term debt* (including current portion)	3,187.5	3,080.7	2,632.6	2,407.1	2,215.1
	Equity per common share*†	18.87	17.96	17.55	17.52	17.01
	Capital expenditures	1,116.7	1,003.7	951.1	901.3	815.7
Other statistics	Telephones in service* (thousands)	9,221.8	8,945.4	8,620.2	8,301.4	7,888.6
	Local conversations (millions)	11,974.2	11,717.1	11,522.4	11,064.3	10,560.1
	Long distance messages (millions)	649.9	610.5	557.2	527.9	490.6
	Number of employees*	56,128	53,328	50,350	48,133	44,904
	Salary and wage payments (millions of dollars)	$1,014.4	$ 868.1	$ 756.3	$ 646.4	$ 561.2

*At December 31.
†Reflects the three-for-one common share subdivision.

Corporate Information

Trustee for Bonds

Canada Permanent Trust Company

Trustees for Debentures

The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures

The Royal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver
(For bonds and debentures
issued in Canada only)

The Royal Trust Company
Montréal
(For bonds issued in
the United States only)

The Royal Trust Company
Montréal
Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For debentures issued in the
United States only)

Listing of Stock

Common Shares and
Preferred Shares:

Canada
Montréal, Toronto, Vancouver
Stock Exchanges

Common Shares:

Belgium
Brussels Stock Exchange

England
London Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Dusseldorf
Stock Exchanges

Switzerland
Zurich, Basle, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United States
New York Stock Exchange

Transfer Offices for Stock

Company Offices—
1050 Beaver Hall Hill
Montréal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
The Royal Trust Company
London, England
(For common shares only)

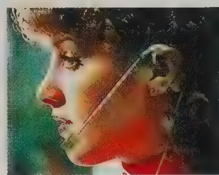
Registrar for Stock

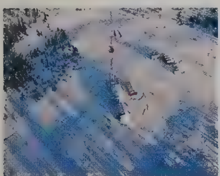
Montreal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
Williams & Glyn's Registrars Limited
London, England
(For common shares only)

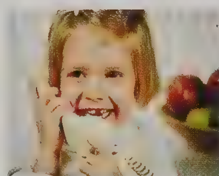
Printed in Canada

Bell Canada
Statistical Report 1979



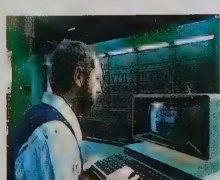
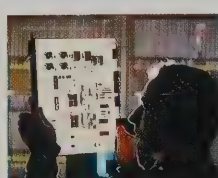


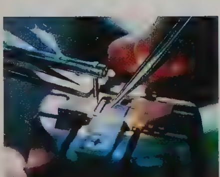
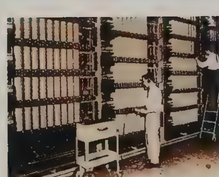




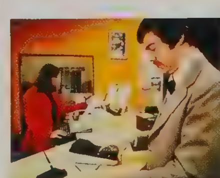






Statistical Report 1979

This publication is intended to supplement Bell Canada's 1979 Annual and Interim Reports to investors. We hope that the information contained herein will help provide readers with a fuller understanding of the financial performance of the Bell Canada Group.

Table of contents

The Bell Canada Group

Major Components of the Bell Canada Group

Major Associated Companies

The Bell Canada Group
Review of Operations

General description
Bell Canada and its subsidiary companies (the "Group") represent one of Canada's largest industrial entities, and the Group is the largest supplier of telecommunications services and equipment in Canada.

The Group provides telecommunications services and facilities in the Provinces of Ontario, Québec and Newfoundland and in the Northwest Territories. In addition, Bell Canada has equity interests in The New Brunswick Telephone Company, Limited and in Maritime Telegraph and Telephone Company, Limited, which provide telecommunications services in the Provinces of New Brunswick and Nova Scotia, respectively.

Northern Telecom Limited ("Northern Telecom"), owned 54.5% by Bell Canada and 45.5% by the public at December 31, 1979, is the largest manufacturer of telecommunications equipment in Canada and the second largest manufacturer in North America of such equipment sold in North America. It is established in international markets and continues to expand as a Canadian-owned multi-national company. Bell-Northern Research Ltd. ("BNR"), 70% owned by Northern Telecom and 30% by Bell Canada, is the largest industrial research and development organization in Canada.

Business
(a) Telecommunications and related services
The Group operates about 9.6 million telephones, representing 61 per cent of the estimated 15.9 million telephones in Canada. Between December 31, 1974 and December 31, 1979, the number of telephones in service in Bell Canada and its present telephone subsidiaries increased at an annual compound growth rate of about 4 per cent. Long distance messages over the period 1974-1979 increased at an annual compound growth rate of 8 per cent.

In addition to basic residential and business telephone services, other telecommunications services are provided by the Group's network. For instance, customers can be supplied with private branch exchange services, paging services, mobile telephones, conference services and automatic answering equipment. The Group also provides specialized telecommunications systems serving pipeline companies and electrical utilities, services and facilities for private line telephone and signal channel use and a microwave radio relay system for the transmission of radio and television. In conjunction with the TransCanada Telephone System, a working association of nine major Canadian telephone companies and Telesat Canada, Bell Canada operates data transmission systems for teletypewriters and for computer installations.

Bell Canada, with its management, training and telecommunications expertise, provides consulting services under contract to clients, principally foreign telecommunications organizations. On January 25, 1978, Bell Canada signed a five-year contract having an estimated value of 3.4 billion Saudi Riyals currently equivalent to approximately $1.2 billion with the Ministry of Post, Telegraph and Telephone of the Kingdom of Saudi Arabia, principally for the operation and maintenance of the telephone system and for the construction of certain facilities in the Kingdom.

(b) Manufacturing
Northern Telecom and its subsidiaries manufacture and market a broad line of telecommunications equipment and electronic office systems for sale throughout the world.

The primary market in Canada for telecommunications equipment consists of telephone operating companies. Bell Canada is Northern Telecom's largest single customer, accounting in 1979 for some 33% of its consolidated sales. The principal market for telecommunications equipment of Northern Telecom and its subsidiaries outside of Canada is in the United States and has consisted primarily of those telephone operating companies which are independent of the U.S. Bell System. American Telephone and Telegraph Company has now approved DMS-10 equipment for use by its telephone operating subsidiaries. In 1979, consolidated sales were 36% in the United States and 6% outside the United States and Canada.

Northern Telecom, building upon its existing product portfolio which includes its family of digital transmission and switching systems, is in the process of developing through research and development and through acquisition of other companies, new products to be utilized with integrated office information systems. As part of this development, two computer terminal manufacturers, Sycor, Inc. and Data 100 Corporation, were acquired in 1978 and were merged as Northern Telecom Systems Corporation.

(c) Research and development
Through BNR, the Group has a separate research and development organization to develop new products, making it largely self-sufficient in design and technology for telecommunications products. BNR has over 2,800 employees, including approximately 1,700 scientists, engineers, industrial designers, graduate technologists and other professional personnel.

The Bell Canada Group Financial Highlights

Financial Highlights — Consolidated
Year ended December 31

	1979	1978	1977	1976	1975
Contribution to earnings per common share (1)†					
Bell Canada	$ 1.93	$ 1.78	$ 1.35	$ 1.54	$ 1.40
Northern Telecom Limited (consolidated)	0.41	0.42	0.43	0.41	0.51
Other subsidiary companies	0.18	0.16	0.10	0.09	0.09
Associated companies and non-consolidated manufacturing subsidiary	0.12	0.13	0.11	0.11	0.07
Total earnings per common share before extraordinary items	$ 2.64	$ 2.49	$ 1.99	$ 2.15	$ 2.07
after extraordinary items	$ 2.64	$ 2.67	$ 2.01	$ 2.17	$ 2.50
Total earnings per common share fully diluted before extraordinary items	$ 2.55	$ 2.36	$ 1.93	$ 1.99	$ 1.96
after extraordinary items	$ 2.55	$ 2.52	$ 1.95	$ 2.00	$ 2.33
Dividends declared per common share (a)†					
Bell Canada	$ 1.34	$ 1.21	$ 1.15	$ 0.98	$ 0.94
Northern Telecom Limited	0.11	0.10	0.09	0.09	0.11
Other subsidiaries and associated companies	0.10	0.12	0.12	0.12	0.10
Total dividends declared per common share	$ 1.55	$ 1.43	$ 1.36	$ 1.19	$ 1.15
(1) Based on weighted average common shares outstanding (thousands)†	152,810	133,396	127,662	120,317	116,995
Equity per common share (b)†	$21.09	$20.12	$19.19	$18.84	$17.95

(a) Assuming all dividends received from subsidiary and associated companies are distributed to shareholders.
(b) At December 31.
†Reflects the three-for-one common share subdivision in April 1979.

Financial Highlights — Non-Consolidated
Year ended December 31

	1979	1978	1977	1976	1975
Earnings per common share†					
before extraordinary item	$2.13	$1.96	$1.58	$1.74	$1.61
after extraordinary item	$2.32	$1.99	$1.58	$1.74	$2.40
Earnings per common share fully diluted†					
before extraordinary item	$2.08	$1.91	$1.56	$1.65	$1.56
after extraordinary item	$2.26	$1.93	$1.56	$1.65	$2.24
Return on common equity	11.5%	11.1%	9.0%	10.1%	10.0%
Return on total capital	9.7%	9.3%	8.4%	8.7%	8.5%
Times interest charges earned	3.5	3.4	3.0	3.4	3.4
Debt ratio	49.2%	51.5%	50.4%	49.2%	48.6%
Equity per common share (b)†	$18.87	$17.96	$17.55	$17.52	$17.01

(b) At December 31.
†Reflects the three-for-one common share subdivision in April 1979.

Ratings — Securities of Bell Canada

	First Mortgage Bonds	Debentures	Preferred Shares
Canadian Bond Rating Service (CBRS)	A++	A+	P-1
Dominion Bond Rating Service (DBRS)	AAA	AA	AA
Moody's	Aa	Aa	
Standard & Poor's	AA	AA	

Consolidated Income Statement *

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Telecommunications operations					
Operating revenues					
Local service	$1,449,713	$1,312,734	$1,151,763	$1,028,520	$ 909,515
Long distance service	1,413,937	1,223,314	1,031,553	918,745	795,789
Miscellaneous—net	97,917	85,670	58,339	48,240	35,697
Total operating revenues	2,961,567	2,621,718	2,241,655	1,995,505	1,741,001
Operating expenses	2,150,083	1,865,958	1,646,296	1,430,688	1,225,057
Net revenues—telecommunications operations	811,484	755,760	595,359	564,817	515,944
Manufacturing operations					
Sales	1,864,160	1,469,997	1,194,728	1,073,356	999,176
Cost of sales	1,269,737	998,569	846,312	771,742	725,395
Selling, general, administrative and other expenses	412,591	326,759	227,389	184,021	151,049
	1,682,328	1,325,328	1,073,701	955,763	876,444
Net revenues—manufacturing operations	181,832	144,669	121,027	117,593	122,732
Contract and directory operations					
Revenues	439,012	282,640	76,781	61,179	49,970
Operating expenses	339,048	237,253	62,238	48,691	39,423
Net revenues—contract and directory operations	99,964	45,387	14,543	12,488	10,547
Total net revenues	1,093,280	945,816	730,929	694,898	649,223
Other income					
Allowance for funds used during construction	20,722	14,087	16,193	15,559	18,249
Equity in net income of associated companies and a non-consolidated manufacturing subsidiary	18,712	16,923	14,384	13,938	8,357
Miscellaneous—net	33,675	18,106	10,289	29,927	11,652
Total other income	73,109	49,116	40,866	59,424	38,258
Interest charges					
Interest on long term debt	289,745	255,350	213,371	185,918	172,639
Other interest	23,054	8,127	8,454	10,378	7,221
Total interest charges	312,799	263,477	221,825	196,296	179,860
Income before underlisted items	853,590	731,455	549,970	558,026	507,621
Unrealized foreign currency losses (gains)	10,685	259	(5,987)	(1,774)	558
Income before income taxes, minority interest and extraordinary items	842,905	731,196	555,957	559,800	507,063
Income taxes	355,371	323,585	242,098	247,522	229,130
Income before minority interest and extraordinary items	487,534	407,611	313,859	312,278	277,933
Minority interest	54,348	37,049	27,651	24,894	11,471
Income before extraordinary items	433,186	370,562	286,208	287,384	266,462
Extraordinary items					
Reduction of income taxes arising from the utilization of prior years' tax losses of subsidiaries	—	8,964	2,367	2,188	—
Gain on sale of Northern Telecom Limited shares by Bell Canada	—	—	—	—	53,007
Provision for costs of terminating the semiconductor business of a subsidiary of Northern Telecom Limited	—	—	—	—	(2,429)
Increase in book value in subsidiaries reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon the acquisition of Sycor, Inc.	—	17,474	—	—	—
Provision for costs of terminating the electrical and electronic products distribution business of Northern Telecom Limited	—	(1,948)	—	—	—
Net income	**433,186**	**395,052**	**288,575**	**289,572**	**317,040**
Dividends on preferred shares	30,521	38,702	31,534	28,847	24,845
Net income applicable to common shares	**$ 402,665**	**$ 356,350**	**$ 257,041**	**$ 260,725**	**$ 292,195**

*Notes to financial statements are not included.

Consolidated Balance Sheet*

December 31

Thousands of dollars

Assets	1979	1978	1977	1976	1975
Telecommunications property—at cost					
Buildings, plant and equipment	$ 9,741,337	$8,826,260	$8,065,501	$7,215,711	$6,469,186
Less: Accumulated depreciation	2,950,562	2,614,419	2,370,978	2,108,484	1,849,816
	6,790,775	6,211,841	5,694,523	5,107,227	4,619,370
Land	65,153	61,833	55,729	52,342	49,653
Plant under construction	270,089	221,181	211,929	253,936	216,585
Material and supplies	128,971	107,746	102,807	105,103	78,752
	7,254,988	6,602,601	6,064,988	5,518,608	4,964,360
Manufacturing property—at cost					
Buildings, plant and equipment	680,274	590,243	377,903	351,150	328,591
Less: Accumulated depreciation	274,868	234,651	206,287	192,510	183,279
	405,406	355,592	171,616	158,640	145,312
Land	13,353	12,796	11,837	10,712	6,961
	418,759	368,388	183,453	169,352	152,273
	7,673,747	6,970,989	6,248,441	5,687,960	5,116,633
Investments					
Associated companies and non-consolidated subsidiaries—at equity	417,403	151,318	146,025	106,708	97,223
Other	4,832	5,723	2,346	2,245	2,245
	422,235	157,041	148,371	108,953	99,468
Current assets					
Cash and temporary cash investments—at cost (approximates market)	95,286	228,986	130,248	193,584	196,260
Accounts receivable—principally from customers	1,060,145	773,496	422,814	356,160	369,992
Inventories	492,539	361,402	218,437	223,281	226,342
Other (principally prepaid expenses)	106,519	77,877	54,247	49,745	49,242
	1,754,489	1,441,761	825,746	822,770	841,836
Other assets					
Cash and temporary cash investments held for contract operations—at cost (approximates market)	49,532	91,851	—	—	—
Long term receivables	41,296	44,932	—	—	—
Deferred charges					
contract operations	90,583	112,912	—	—	—
unrealized foreign currency losses, less amortization	131,780	165,162	62,993	—	—
other	82,663	84,371	43,324	39,501	37,807
Cost of shares in acquired subsidiaries in excess of underlying net assets, less amortization	119,163	127,989	10,354	14,136	5,398
Other	11,025	8,275	3,662	2,075	1,935
	526,042	635,492	120,333	55,712	45,140
Total assets	**$10,376,513**	**$9,205,283**	**$7,342,891**	**$6,675,395**	**$6,103,077**

*Notes to financial statements are not included.

Liabilities and Shareholders' Equity	1979	1978	1977	1976	1975
					Thousands of dollars
Common shareholders' equity					
Common shares outstanding	$ 1,320,647	$1,176,622	$1,094,008	$1,015,509	$ 994,092
Premium on capital stock	807,778	607,388	527,143	460,878	441,213
Contributed surplus	15,290	15,290	15,290	15,290	15,290
Retained earnings	1,198,384	1,041,075	882,537	804,750	690,656
	3,342,099	2,840,375	2,518,978	2,296,427	2,141,251
Convertible preferred shares (redeemable)					
$3.20	5,123	6,546	11,645	18,386	28,651
$3.34	4,234	6,188	13,151	23,381	47,635
$4.23	12,181	26,730	91,894	93,826	93,985
$2.28	36,491	76,458	124,922	124,994	125,000
$1.96	158,689	174,843	—	—	—
	216,718	290,765	241,612	260,587	295,271
Non-convertible preferred shares (redeemable)					
$2.25	42,255	43,965	44,880	46,410	47,940
$1.80	70,000	70,000	70,000	70,000	—
	112,255	113,965	114,880	116,410	47,940
Minority interest in subsidiary companies					
Preferred shares	30,324	30,908	31,543	20,741	19,145
Common shares	437,417	265,770	153,305	133,340	104,532
	467,741	296,678	184,848	154,081	123,677
Long term debt (including unrealized foreign currency losses)	3,675,103	3,381,086	2,742,860	2,471,184	2,301,173
Current liabilities					
Accounts payable	570,956	477,831	320,700	289,806	235,419
Advance billing for service	52,445	49,617	42,630	37,461	32,664
Dividends payable	72,540	60,889	50,213	43,533	39,137
Taxes accrued	73,433	110,879	20,208	32,709	57,570
Interest accrued	78,875	71,497	56,161	45,332	38,839
Debt due within one year					
Long term debt	141,158	155,188	78,479	96,144	70,444
Notes payable	155,598	83,921	101,232	79,935	60,354
Bank advances	9,330	41,687	15,930	15,288	17,429
	1,154,335	1,051,509	685,553	640,208	551,856
Deferred credits					
Income taxes	1,066,749	933,900	832,384	717,472	624,019
Other	341,513	297,005	21,776	19,026	17,890
	1,408,262	1,230,905	854,160	736,498	641,909
Total liabilities and shareholders' equity	**$10,376,513**	**$9,205,283**	**$7,342,891**	**$6,675,395**	**$6,103,077**

Consolidated Statement of Premium on Capital Stock*

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Balance at beginning of year	$ 607,388	$ 527,143	$ 460,878	$ 441,213	$ 384,330
Premium on common shares issued during the year	200,390	80,245	66,265	19,665	56,883
Balance at end of year	$ 807,778	$ 607,388	$ 527,143	$ 460,878	$ 441,213

Consolidated Statement of Contributed Surplus*

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Balance at beginning of year	$ 15,290	$ 15,290	$ 15,290	$ 15,290	$ 15,549
Decrease arising on consolidation from the issues of shares by subsidiaries.	—	—	—	—	(259)
Balance at end of year	$ 15,290	$ 15,290	$ 15,290	$ 15,290	$ 15,290

Consolidated Statement of Retained Earnings*

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Balance at beginning of year	$1,041,075	$ 882,537	$ 804,750	$ 690,656	$ 536,094
Net income	433,186	395,052	288,575	289,572	317,040
Excess of par value over cost of preferred shares purchased for cancellation	37	4	66	203	179
	1,474,298	1,277,593	1,093,391	980,431	853,313
Deduct:					
Dividends					
Preferred shares					
$3.20 shares	384	634	935	1,643	2,705
$3.34 shares	316	645	1,103	2,455	4,132
$4.23 shares	1,474	7,352	8,385	8,454	8,459
$2.28 shares	5,316	11,390	11,397	11,400	5,900
$1.96 shares	13,478	9,060	—	—	—
$2.25 shares	3,253	3,321	3,414	3,530	3,649
$1.80 shares	6,300	6,300	6,300	1,365	—
	30,521	38,702	31,534	28,847	24,845
Common shares	240,571	193,113	175,626	143,969	135,418
	271,092	231,815	207,160	172,816	160,263
Expenses of issues of capital stock	4,822	4,703	3,694	2,865	2,394
	275,914	236,518	210,854	175,681	162,657
Balance at end of year	$1,198,384	$1,041,075	$ 882,537	$ 804,750	$ 690,656

*Notes to financial statements are not included.

Consolidated Statement of Changes in Financial Position *

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Source of funds					
Operations					
Income before extraordinary items	$ 433,186	$ 370,562	$ 286,208	$ 287,384	$ 266,462
Items not affecting current funds					
Depreciation	646,970	550,058	479,915	430,241	383,208
Deferred income taxes	132,849	101,516	114,912	93,453	84,392
Allowance for funds used during construction	(20,722)	(14,087)	(16,193)	(15,559)	(18,249)
Other—net	12,547	52,656	33,924	28,365	16,454
Total from operations	1,204,830	1,060,705	898,766	823,884	732,267
Extraordinary items	—	24,490	2,367	2,188	—
Net proceeds from the sale by Bell Canada of common shares of a subsidiary	—	—	—	—	118,112
Proceeds from long term debt	575,524	579,558	293,050	279,965	240,345
Due to non-consolidated finance subsidiaries	165,957	79,421	—	—	—
Proceeds from issue of Bell Canada common shares					
underwritten issue	194,109	—	—	—	—
upon exercise of warrants	—	—	118,607	763	—
under the dividend reinvestment and stock purchase plan	64,125	30,134	—	—	—
Proceeds from issues of Bell Canada preferred shares	—	170,903	—	68,248	123,336
Proceeds from issues of shares by subsidiaries to minority shareholders	97,792	96,724	9,701	11,748	13,982
Issue of common shares upon conversion of convertible preferred shares	74,044	125,820	18,952	34,655	112,258
Advance payment on contract operations	—	190,587	—	—	—
Decrease in cash and temporary cash investments held for contract operations	42,319	—	—	—	—
Miscellaneous	192,423	117,138	12,689	32,418	17,410
Decrease in working capital	—	—	42,369	107,418	—
	$2,611,123	$2,475,480	$1,396,501	$1,361,287	$1,357,710
Disposition of funds					
Capital expenditures					
Gross capital expenditures	$1,351,044	$1,183,972	$1,045,665	$ 992,686	$ 901,113
Deduct: charges not requiring funds	(13,396)	(24,395)	(13,748)	(26,064)	(27,981)
Increase (decrease) in material and supplies	21,225	4,939	(2,296)	26,351	(4,778)
Net expenditures	1,358,873	1,164,516	1,029,621	992,973	868,354
Extraordinary item	—	—	—	—	2,429
Dividends by Bell Canada	271,092	231,815	207,160	172,816	160,263
Dividends by subsidiaries to minority shareholders	15,546	11,508	10,730	8,600	4,147
Reduction of long term debt	428,758	246,018	88,668	116,780	115,877
Acquisition of investments (less working capital acquired in 1978 of $107,427)	2,848	189,294	34,348	34,582	8,234
Investments in non-consolidated finance subsidiaries	233,835	23,712	—	—	—
Conversion of preferred shares	74,047	125,848	18,975	34,684	112,261
Increase in cash and temporary cash investments held for contract operations	—	91,851	—	—	—
Deferred charges—contract operations	—	112,912	—	—	—
Miscellaneous	16,222	27,947	6,999	852	3,480
Increase in working capital	209,902	250,059	—	—	82,665
	$2,611,123	$2,475,480	$1,396,501	$1,361,287	$1,357,710
Working capital changes					
Increase (decrease) in current assets:					
Cash and temporary cash investments	$ (133,700)	$ 98,738	$ (63,336)	$ (2,676)	$ 142,727
Accounts receivable	286,649	350,682	66,654	(13,832)	53,030
Inventories	131,137	142,965	(4,844)	(3,061)	(27,105)
Other	28,642	23,630	4,502	503	4,473
(Increase) decrease in current liabilities:					
Accounts payable	(93,125)	(157,131)	(30,894)	(54,387)	(26,172)
Advance billing for service	(2,828)	(6,987)	(5,169)	(4,797)	(3,907)
Dividends payable	(11,651)	(10,676)	(6,680)	(4,396)	(6,997)
Taxes accrued	37,446	(90,671)	12,501	24,861	(14,775)
Interest accrued	(7,378)	(15,336)	(10,829)	(6,493)	(4,427)
Debt due within one year	(25,290)	(85,155)	(4,274)	(43,140)	(34,182)
Increase (decrease) in working capital, as above	$ 209,902	$ 250,059	$ (42,369)	$ (107,418)	$ 82,665

*Notes to financial statements are not included.

The Bell Canada Group

Telephone Statistics

Telephones in service (as at December 31)	1979	1978	1977	1976	1975
Bell Canada	9,221,843	8,945,414	8,620,229	8,301,433	7,888,581
Newfoundland Telephone	193,076	175,312	164,193	158,614	150,389
Télébec	155,432	138,535	130,712	125,006	118,325
Others	71,622	69,166	67,018	73,187	69,273
Total consolidated	9,641,973	9,328,427	8,982,152	8,658,240	8,226,568
Increase (%)	3.4	3.9	3.7	5.2	5.0
Maritime Telegraph and Telephone (non-consolidated)	474,308	451,629	431,129	414,855	392,441
New Brunswick Telephone	376,514	358,842	342,920	331,838	320,711
	850,822	810,471	774,049	746,693	713,152

In millions

Long distance messages (year ended December 31)	1979	1978	1977	1976	1975
Bell Canada	650	610	557	528	491
Newfoundland Telephone	17	15	13	12	11
Télébec	14	13	12	11	10
Others	6	5	6	5	5
Total consolidated	687	643	588	556	517
Increase (%)	6.8	9.4	5.8	7.5	9.8
Maritime Telegraph and Telephone (non-consolidated)	43	38	35	32	30
New Brunswick Telephone	35	31	28	26	24
	78	69	63	58	54

Manufacturing Sales Revenues

Year ended December 31

Dollars in thousands

	1979	1978	1977	1976	1975
A. By geographical destination					
Canada	48.7%	63.2%	78.8%	86.1%	87.4%
U.S.	40.5	29.0	16.5	10.7	9.3
Other foreign	10.8	7.8	4.7	3.2	3.3
Total consolidated	100.0	100.0	100.0	100.0	100.0
B. By customers					
Sales to Bell Canada	$ 616,006	$ 536,684	$ 533,235	$ 531,704	$ 451,454
Percent of total	33.1%	36.5%	44.6%	49.5%	45.2%
Sales to telephone subsidiary and associated companies of Bell Canada	$ 43,522	$ 50,694	$ 52,046	$ 65,903	$ 59,484
Percent of total	2.3%	3.5%	4.4%	6.2%	5.9%
Sales to others	$1,204,632	$ 882,619	$ 609,447	$ 475,749	$ 488,238
Percent of total	64.6%	60.0%	51.0%	44.3%	48.9%
Total consolidated	$1,864,160	$1,469,997	$1,194,728	$1,073,356	$ 999,176

Capital Expenditures

Year ended December 31

Thousands of dollars

	1979	1978	1977	1976	1975
Bell Canada	$1,116,743	$1,003,672	$ 951,079	$ 901,324	$ 815,679
Others	234,301	180,300	94,586	91,362	85,434
Total consolidated	$1,351,044	$1,183,972	$1,045,665	$ 992,686	$ 901,113
Maritime Telegraph and Telephone (non-consolidated)	$ 52,693	$ 49,508	$ 51,424	$ 62,635	$ 64,477
New Brunswick Telephone	40,532	39,690	48,019	55,835	42,004
	$ 93,225	$ 89,198	$ 99,443	$ 118,470	$ 106,481

Major Components of the Bell Canada Group

Northern Telecom Limited — Consolidated Summarized Income Statement

Year ended December 31

Thousands of dollars

	1979	1978	1977	1976	1975
Sales	$1,900,522	$1,504,560	$1,221,922	$1,083,491	$ 996,843
Cost of sales and expenses	1,716,687	1,358,847	1,100,619	965,142	874,817
	183,835	145,713	121,303	118,349	122,026
Other income	3,762	10,589	9,418	11,742	3,756
	187,597	156,302	130,721	130,091	125,782
Interest charges	38,215	17,141	6,562	6,819	8,298
Unrealized foreign currency losses (gains)	426	(5,091)	(5,987)	(1,774)	558
Income taxes	35,484	49,868	48,313	51,108	46,797
Minority interest	—	—	—	2	(118)
	74,125	61,918	48,888	56,155	55,535
Income before extraordinary items	113,472	94,384	81,833	73,936	70,247
Extraordinary items	—	6,344	3,422	3,163	(2,723)
Net income	**$ 113,472**	**$ 100,728**	**$ 85,255**	**$ 77,099**	**$ 67,524**
Net income applicable to common shares(a)	**$ 113,472**	**$ 94,384**	**$ 81,833**	**$ 73,936**	**$ 70,247**
Average common shares outstanding (thousands)	**30,656**	**28,344**	**26,469**	**26,469**	**26,433**

(a) Before extraordinary items.

Tele-Direct Ltd. — Consolidated Summarized Income Statement

Year ended December 31

Thousands of dollars

	1979	1978	1977	1976	1975
Operating revenues	$ 161,576	$ 137,318	$ 105,636	$ 91,292	$ 75,269
Operating expenses	129,516	112,840	92,052	77,148	64,471
	32,060	24,478	13,584	14,144	10,798
Other income	383	(396)	443	234	—
	32,443	24,082	14,027	14,378	10,798
Interest charges	5,005	3,305	1,886	2,117	1,641
Income taxes	13,634	10,297	5,534	5,784	4,606
Minority interest	—	335	—	—	—
	18,639	13,937	7,420	7,901	6,247
Income before extraordinary item	13,804	10,145	6,607	6,477	4,551
Extraordinary item	—	758	—	—	(449)
Net income	**$ 13,804**	**$ 10,903**	**$ 6,607**	**$ 6,477**	**$ 4,102**
Net income applicable to common shares(a)	**$ 13,804**	**$ 10,145**	**$ 6,607**	**$ 6,477**	**$ 4,551**

(a) Before extraordinary item.

Major Components of the Bell Canada Group

Newfoundland Telephone Company Limited
Summarized Income Statement

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Operating revenues	$ 79,057	$ 70,507	$ 60,171	$ 51,671	$ 42,884
Operating expenses	51,413	44,360	39,349	34,111	29,288
	27,644	26,147	20,822	17,560	13,596
Other income	2,060	(275)	291	675	630
	29,704	25,872	21,113	18,235	14,226
Interest charges	8,877	8,489	7,592	7,721	7,106
Income taxes	9,757	7,536(a)	4,940(a)	3,735(a)	1,970(a)
	18,634	16,025	12,532	11,456	9,076
Net income	**$ 11,070**	**$ 9,847(a)**	**$ 8,581(a)**	**$ 6,779(a)**	**$ 5,150(a)**
Dividends on preferred shares	**$ 1,942**	**$ 1,984**	**$ 1,741**	**$ 1,173**	**$ 908**
Net income applicable to common shares	**$ 9,128**	**$ 7,863(a)**	**$ 6,840(a)**	**$ 5,606(a)**	**$ 4,242(a)**
Average common shares outstanding (thousands)	**7,682**	**6,745**	**6,482**	**5,851**	**5,082**

(a) Results reflect a partial tax allocation basis.

Télébec Ltée
Summarized Income Statement

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Operating revenues	$ 51,476	$ 41,321	$ 36,278	$ 29,990	$ 24,257
Operating expenses	35,591	28,720	25,128	21,771	18,235
	15,885	12,601	11,150	8,219	6,022
Other income	656	387	107	258	235
	16,541	12,988	11,257	8,477	6,257
Interest charges	6,048	4,891	4,242	3,659	2,729
Income taxes	4,896	3,725	3,318	2,177	1,602
	10,944	8,616	7,560	5,836	4,331
Net income	**$ 5,597**	**$ 4,372**	**$ 3,697**	**$ 2,641**	**$ 1,926**

Major Associated Companies

Maritime Telegraph and Telephone Company, Limited
Summarized Income Statement

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Operating revenues	$ 166,924	$ 149,206	$ 129,655	$ 111,695	$ 90,621
Operating expenses	111,801	99,563	85,979	74,754	62,484
	55,123	49,643	43,676	36,941	28,137
Other income	1,127	1,008	1,274	1,760	2,249
	56,250	50,651	44,950	38,701	30,386
Interest charges	15,838	14,803	14,432	14,056	11,677
Income taxes	19,033	16,953	14,278	11,224	8,141
	34,871	31,756	28,710	25,280	19,818
Net income	**$ 21,379**	**$ 18,895**	**$ 16,240**	**$ 13,421**	**$ 10,568**
Dividends on preferred shares	**$ 3,848**	**$ 4,008**	**$ 3,435**	**$ 3,043**	**$ 2,789**
Net income applicable to common shares	**$ 17,531**	**$ 14,887**	**$ 12,805**	**$ 10,378**	**$ 7,779**
Average common shares outstanding (thousands)	**5,547**	**5,425**	**5,304**	**4,574**	**4,110**

The New Brunswick Telephone Company, Limited — Consolidated
Summarized Income Statement

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Operating revenues	$ 139,299	$ 123,217	$ 110,178	$ 92,648	$ 76,451
Operating expenses	95,006	83,668	75,052	63,637	52,754
	44,293	39,549	35,126	29,011	23,697
Other income	3,792	2,255	2,486	2,743	2,030
	48,085	41,804	37,612	31,754	25,727
Interest charges	13,960	11,361	9,887	8,679	7,566
Unrealized foreign currency losses	224	246	—	—	—
Income taxes	16,217	14,348	12,780	10,097	8,469
	30,401	25,955	22,667	18,776	16,035
Income before extraordinary item	17,684	15,849	14,945	12,978	9,692
Extraordinary item	—	—	—	790	—
Net income	**$ 17,684**	**$ 15,849**	**$ 14,945**	**$ 13,768**	**$ 9,692**
Dividends on preferred shares	**$ 1,572**	**$ 1,681**	**$ 1,764**	**$ 1,801**	**$ 1,614**
Net income applicable to common shares(a)	**$ 16,112**	**$ 14,168**	**$ 13,181**	**$ 11,177**	**$ 8,078**
Average common shares outstanding (thousands)	**6,301**	**6,167**	**6,044**	**5,090**	**4,821**

(a) Before extraordinary item.

Major Components of the Bell Canada Group

External Financing (a) (b)

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Sale of investment – net (c)	$ 34,585	$ 4,778	$ —	$ —	$ 118,112
Debt obligations (d)					
Long term					
Bell Canada	235,000	418,966	255,600	255,180	217,473
Newfoundland Telephone	—	—	20,000	10,000	—
Northern Telephone	—	—	—	—	4,000
Télébec	6,500	7,000	11,500	10,000	—
Capital (e)	3,089	17,773	6,346	8,647	—
Northern Telecom Limited (e)	325,813	129,645	—	—	14,351
	570,402	573,384	293,446	283,827	235,824
Interim financing – net	39,320	8,446	21,939	17,440	16,643
	609,722	581,830	315,385	301,267	252,467
Preferred shares (d)					
Bell Canada	—	175,000	—	70,000	125,000
Newfoundland Telephone	—	—	10,000	—	9,000
Northern Telephone	—	—	—	2,000	—
	—	175,000	10,000	72,000	134,000
Common shares (d)					
Bell Canada (f)	270,371	37,040	125,811	6,427	5,247
Newfoundland Telephone	—	12,150	—	9,100	—
Northern Telecom Limited (e)	100,465	84,574	—	—	5,228
	370,836	133,764	125,811	15,527	10,475
Total external financing	$1,015,143	$ 895,372	$ 451,196	$ 388,794	$ 515,054

(a) Expressed in Canadian dollars.
(b) Inter-company financings and capitalized leases are excluded.
(c) Net proceeds arising from the sale by Bell Canada of common shares of Northern Telecom Limited.
(d) Underwriting discounts and/or commissions not deducted.
(e) Includes subsidiaries.
(f) Excludes issues of common shares upon conversion of convertible preferred shares.

Shareholder Dividend Reinvestment and Stock Purchase Plan

Bell Canada's Shareholder Dividend Reinvestment and Stock Purchase Plan (the "Plan") provides a means for holders of record of Bell Canada common shares to invest cash dividends and optional cash payments in new common shares of Bell Canada. Such shares are purchased directly from Bell Canada by an Agent who acts on behalf of the participants under the Plan. National Trust Company, Limited (the "Agent") acts as the Agent for the participants under the Plan pursuant to an agreement which may be terminated by Bell Canada or the Agent at any time.

As of February 18, 1980, 18.1% of common shareholders representing 21.2% of common shares outstanding were participating in the Plan.

A publication outlining the details of the Plan is available without charge upon written request to:

The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec H3C 3G4

Major Components of the Bell Canada Group

Bell Canada — The Parent Company
Telephone Statistics
December 31

	1979	1978	1977	1976	1975
Telephones in service					
Total	9,221,843	8,945,414	8,620,229	8,301,433	7,888,581
Residence					
Main	4,652,760	4,554,562	4,423,050	4,290,756	4,144,012
Extension	1,798,653	1,725,007	1,629,587	1,535,791	1,367,202
PBX	82	92	82	94	99
Business					
Main	831,563	793,044	759,054	725,501	689,655
Extension	601,059	577,635	557,584	536,004	512,664
PBX	931,569	899,768	870,123	852,162	831,568
Centrex	406,157	395,306	380,749	361,125	343,381
Conversations (in millions)					
Total	12,624	12,328	12,079	11,592	11,051
Local	11,974	11,717	11,522	11,064	10,560
Long distance					
Operator handled	95	94	90	90	88
Customer dialed	555	517	467	438	403
Originating calls					
Per average business day (in thousands)	54,629	52,966	51,060	49,027	46,771
Per average business day per average telephone (excluding residence extensions)	7.6	7.5	7.5	7.4	7.4
Per average business day per average telephone	6.1	6.0	6.1	6.1	6.1
Number of central offices					
Total	1,598	1,581	1,565	1,533	1,498
Number of electronic central offices included above	195	174	152	127	93
Class of telephone service					
Percent distribution of residence main telephones					
Individual	89.4	88.7	87.9	87.1	86.3
2 party	5.4	5.9	6.5	7.1	7.8
More than 2 party	5.2	5.4	5.6	5.8	5.9
Percent distribution of business main telephones					
Individual	99.0	98.9	98.7	98.6	98.5
2 or more party	1.0	1.1	1.3	1.4	1.5
Telephones by types of exchanges					
Telephones served by exchanges (in thousands)					
Step-by-step	3,703	3,838	3,888	3,971	4,045
Percent of total	40.2%	42.9%	45.1%	47.8%	51.3%
Crossbar	3,838	3,681	3,530	3,384	3,172
Percent of total	41.6%	41.2%	41.0%	40.8%	40.2%
Electronic switching	1,678	1,424	1,200	944	670
Percent of total	18.2%	15.9%	13.9%	11.4%	8.5%
Other	3	2	2	2	2
Percent of total	—	—	—	—	—
Total telephones in service (in thousands)	9,222	8,945	8,620	8,301	7,889

Capital Expenditures
Year ended December 31

Millions of dollars

	1979	1978	1977	1976	1975
Demand	$ 758.2	$ 644.4	$639.3	$635.2	$610.6
Programs	215.9	229.4	199.8	156.9	122.3
Replacement and General	142.6	129.9	112.0	109.2	82.8
Total	$1,116.7	$1,003.7	$951.1	$901.3	$815.7

Major Components of the Bell Canada Group

Bell Canada — The Parent Company
Non-Consolidated Income Statement

Year ended December 31 — Thousands of dollars

	1979	1978	1977	1976	1975
Telecommunications operations					
Operating revenues					
Local service	$1,392,707	$1,263,096	$1,107,640	$ 990,259	$ 878,257
Long distance service	1,329,670	1,152,507	970,453	867,679	753,581
Miscellaneous—net	94,731	81,827	55,322	45,986	34,032
Total operating revenues	2,817,108	2,497,430	2,133,415	1,903,924	1,665,870
Operating expenses					
Maintenance	464,132	420,182	372,457	308,963	274,218
Depreciation	530,874	473,989	427,853	385,410	341,396
Traffic	135,142	127,413	116,178	106,423	97,487
Marketing, commercial and advertising	164,617	141,307	122,526	111,902	96,056
Taxes other than income	179,302	146,075	130,036	119,227	96,538
Other	580,399	475,531	403,445	335,752	265,929
Total operating expenses	2,054,466	1,784,497	1,572,495	1,367,677	1,171,624
Net revenues—telecommunications operations	762,642	712,933	560,920	536,247	494,246
Other income					
Dividends					
subsidiary companies	24,232	21,357	19,637	18,172	19,854
associated companies	8,485	7,559	7,362	6,971	5,679
Allowance for funds used during construction	19,964	13,530	15,683	14,734	17,231
Miscellaneous—net	28,159	14,342	10,279	25,350	10,576
	80,840	56,788	52,961	65,227	53,340
	843,482	769,721	613,881	601,474	547,586
Interest charges	252,589	231,020	202,393	177,285	160,934
Unrealized foreign currency losses	9,890	5,487	—	—	—
Income taxes	256,370	240,118	178,593	185,696	173,918
	518,849	476,625	380,986	362,981	334,852
Income—telecommunications operations	324,633	293,096	232,895	238,493	212,734
Contract operations					
Revenues	319,795	185,653	—	—	—
Operating expenses	252,141	165,843	—	—	—
Net revenues—contract operations	67,654	19,810	—	—	—
Miscellaneous—net	(7,199)	(2,761)	—	—	—
	60,455	17,049	—	—	—
Income taxes	29,278	9,328	—	—	—
Income—contract operations	31,177	7,721	—	—	—
Income before extraordinary item	355,810	300,817	232,895	238,493	212,734
Extraordinary item					
Gain on sale of Northern Telecom Limited shares	29,835	4,122	—	—	92,597
Net income	**$ 385,645**	**$ 304,939**	**$ 232,895**	**$ 238,493**	**$ 305,331**
Dividends on preferred shares	**$ 30,521**	**$ 38,702**	**$ 31,534**	**$ 28,847**	**$ 24,845**
Net income applicable to common shares (a)	**$ 325,289**	**$ 262,115**	**$ 201,361**	**$ 209,646**	**$ 187,889**

Weighted average common shares outstanding (thousands)†	152,810	133,396	127,662	120,317	116,995

(a) Before extraordinary item.
†Reflects the three-for-one common share subdivision.

Major Components of the Bell Canada Group

Bell Canada — The Parent Company Non-Consolidated Balance Sheet

December 31

Thousands of dollars

Assets	1979	1978	1977	1976	1975
Telecommunications property—at cost					
Buildings, plant and equipment	$9,275,667	$8,415,085	$7,691,786	$6,875,569	$6,173,096
Less: Accumulated depreciation	2,815,650	2,496,256	2,266,382	2,013,466	1,763,655
	6,460,017	5,918,829	5,425,404	4,862,103	4,409,441
Land, and plant under construction	318,971	270,179	254,875	295,610	249,944
Material and supplies	122,325	101,919	97,190	100,424	72,857
	6,901,313	6,290,927	5,777,469	5,258,137	4,732,242
Investments—at cost					
Subsidiary companies	309,614	212,709	212,431	215,563	215,067
Associated companies	107,971	107,971	107,971	107,971	107,944
	417,585	320,680	320,402	323,534	323,011
Current assets	749,502	693,769	287,910	346,223	405,272
Other assets	311,679	407,862	100,149	28,295	26,947
Total assets	**$8,380,079**	**$7,713,238**	**$6,485,930**	**$5,956,189**	**$5,487,472**

Liabilities and Shareholders' Equity	1979	1978	1977	1976	1975
Common shareholders' equity					
Common shares outstanding	$1,320,647	$1,176,622	$1,094,008	$1,015,509	$ 994,092
Premium on capital stock	807,778	607,388	527,143	460,878	441,213
Retained earnings	861,322	751,554	682,748	658,213	594,085
	2,989,747	2,535,564	2,303,899	2,134,600	2,029,390
Convertible preferred shares (redeemable)	216,718	290,765	241,612	260,587	295,271
Non-convertible preferred shares (redeemable)	112,255	113,965	114,880	116,410	47,940
Long term debt	3,082,908	2,968,425	2,559,685	2,314,259	2,151,592
Current liabilities					
Debt due within one year	127,543	154,400	141,210	122,798	93,344
Other	580,213	532,503	343,980	332,393	283,443
	707,756	686,903	485,190	455,191	376,787
Deferred credits					
Income taxes	935,629	827,860	758,969	656,204	568,695
Other	335,066	289,756	21,695	18,938	17,797
	1,270,695	1,117,616	780,664	675,142	586,492
Total liabilities and shareholders' equity	**$8,380,079**	**$7,713,238**	**$6,485,930**	**$5,956,189**	**$5,487,472**

Major Components of the Bell Canada Group

Bell Canada — The Parent Company
Non-Consolidated Statement of Changes in Financial Position

Year ended December 31

Thousands of dollars

	1979	1978	1977	1976	1975
Source of funds					
Operations					
Income before extraordinary item	$ 355,810	$ 300,817	$ 232,895	$ 238,493	$ 212,734
Items not affecting current funds					
Depreciation	531,032	473,993	427,853	385,410	341,396
Deferred income taxes	107,769	68,891	102,765	87,509	78,097
Allowance for funds used during construction	(19,964)	(13,530)	(15,683)	(14,734)	(17,231)
Other—net	(18,344)	15,800	7,255	6,929	6,838
Total from operations	956,303	845,971	755,085	703,607	621,834
Net proceeds from the sale of common shares of a subsidiary	34,585	4,778	—	—	118,112
Proceeds from long term debt	238,668	415,409	255,204	251,663	220,997
Proceeds from issue of common shares					
underwritten issue	194,109	—	—	—	—
upon exercise of warrants	—	—	118,607	763	—
under the dividend reinvestment and stock purchase plan	64,125	30,134	—	—	—
Proceeds from issues of preferred shares	—	170,903	—	68,248	123,336
Issue of common shares upon conversion of convertible preferred shares	74,044	125,820	18,952	34,655	112,258
Advance payment on contract operations	—	190,587	—	—	—
Decrease in cash and temporary cash investments held for contract operations	42,319	—	—	—	—
Miscellaneous	116,763	95,107	17,356	11,608	13,544
Decrease in working capital	—	—	88,312	137,453	—
	$1,720,916	$1,878,709	$1,253,516	$1,207,997	$1,210,081
Disposition of funds					
Capital expenditures					
Gross capital expenditures	$1,116,743	$1,003,672	$ 951,079	$ 901,324	$ 815,679
Deduct: charges not requiring funds	(11,749)	(22,709)	(14,703)	(25,221)	(26,639)
Increase (decrease) in material and supplies	20,406	4,729	(3,234)	27,567	(5,619)
Net expenditures	1,125,400	985,692	933,142	903,670	783,421
Dividends	271,092	231,815	207,160	172,816	160,263
Reduction of long term debt	105,358	114,992	76,604	93,145	64,136
Acquisition of investments	106,493	4,024	3,545	1,670	6,088
Conversion of preferred shares	74,047	125,848	18,975	34,684	112,261
Increase in cash and temporary cash investments held for contract operations	—	91,851	—	—	—
Deferred charges—contract operations	—	112,912	—	—	—
Miscellaneous	3,646	7,429	14,090	2,012	2,156
Increase in working capital	34,880	204,146	—	—	81,756
	$1,720,916	$1,878,709	$1,253,516	$1,207,997	$1,210,081
Working capital changes					
Increase (decrease) in current assets:					
Cash and temporary cash investments	$ (118,779)	$ 192,539	$ (84,209)	$ (43,450)	$ 102,734
Accounts receivable	167,331	210,079	25,066	(14,466)	40,866
Other	7,181	3,241	830	(1,133)	3,433
(Increase) decrease in current liabilities:					
Accounts payable	(84,007)	(61,086)	6,718	(71,114)	4,199
Advance billing for service	(2,407)	(5,758)	(4,757)	(4,001)	(3,408)
Dividends payable	(8,970)	(10,679)	(6,897)	(4,629)	(6,550)
Taxes accrued	52,803	(96,492)	4,184	36,574	(36,364)
Interest accrued	(5,129)	(14,508)	(10,836)	(5,780)	(4,111)
Debt due within one year	26,857	(13,190)	(18,411)	(29,454)	(19,043)
Increase (decrease) in working capital, as above	$ 34,880	$ 204,146	$ (88,312)	$ (137,453)	$ 81,756

Major Components of the Bell Canada Group

Bell Canada — The Parent Company

Regulation (a)

In recent years, the method of testing the reasonableness of Bell Canada's rates has taken the form of a rate of return on average common equity and average total capital. In August 1974, the Canadian Transport Commission stated that an appropriate permissive range in the rate of return would be 11 per cent to 12 per cent on average common equity and 8.6 per cent to 9.1 per cent on average total capital. In a decision dated August 10, 1978 the Canadian Radio-television and Telecommunications Commission (CRTC) "concluded that the maintenance of the financial integrity of the Company requires it to earn a rate of return on equity in 1979 of 12%." In the same decision the Commission also stated that it could "foresee circumstances in which a rate of return objective of 13% or 13.5% might not be unreasonable." In the August 10, 1978 decision, the Commission directed that the total net income of Tele-Direct Ltd. and Bell Canada International should be included in "other income" for Bell Canada in 1978 and 1979 for regulatory purposes. At the same time the CRTC concluded that all the revenues from the Saudi Arabian contract should be treated as part of the Company's ordinary revenues for regulatory purposes for each of the years 1978 and 1979. (b)

In 1979, using the method of computation resulting from the Commission's order, Bell Canada earned, before extraordinary item, a return of 11.6 per cent on average common equity.

(a) On April 1, 1976, Bill C-5, entitled "The Canadian Radio-television and Telecommunications Act", came into force. The Act entrusts regulation of all federally regulated telecommunication carriers (including Bell Canada) and supervision of broadcasting to the Canadian Radio-television and Telecommunications Commission (CRTC). The CRTC performs the duties and functions in relation to telecommunications which were previously vested in the Telecommunication Committee of the Canadian Transport Commission (CTC).
(b) Under appeal.

Rate of Return on Average Common Equity (Regulated) 1979 (thousands of dollars)

Regulated Earnings from:		**Average Common Equity Rate Base:**	
Telecommunications and Contract Operations	$325,289	Telecommunications and Contract Operations	$2,826,474
Tele-Direct Ltd. and Bell Canada International (Net Income not received in dividends by Bell)	3,813	Tele-Direct Ltd. and Bell Canada International (Retained earnings)	12,998
Total	$329,102	Total	$2,839,472

Rate of Return on Average Common Equity Rate Base = 329,102 ÷ 2,839,472 = 11.6%

Rate Proceedings and Decisions

Application Filed	Decision	Additional Revenue Requested (Millions)	Additional Revenue Granted (Millions)	Portion of Request Granted	Return on Average Total Capital Allowed	Return on Average Common Equity Allowed
15 Aug. 1973	15 Aug. 1974	$ 51.8	$ 48.2	93.1%	8.6%-9.1%	11.0%-12.0%
30 May 1975	28 Jul. 1975	65.0	32.5(2)	50.0%	— (1)	— (1)
30 May 1975	22 Dec. 1975	74.4	74.4(2)	100.0%	— (1)	— (1)
3 Nov. 1976	1 Jun. 1977	171.6	162.0	94.4%	— (1)	12.0%(3)
1 Feb. 1978	10 Aug. 1978	398.9(4)	248.0(4)	62.2%	— (5)	12.0%

Rate Proceedings in Progress

Application Filed	Additional Revenue Requested (Millions)	Return on Average Total Capital Requested	Return on Average Common Equity Requested
19 Feb. 1980	$465.4(6)	10.3%(6)	12.0%(6)

All figures are on an annualized basis except where otherwise noted.
(1) No formal request for rate of return. The hearing was a cost recovery case, and earlier allowed return was used by the Company.
(2) Decision of 22 December 1975 also granted the remainder of the first phase application. The combined effect of the two increases would be $110.3 million annualized for 1976.
(3) The CRTC found this to be "acceptable" although the hearing was a cost recovery, not a rate of return case.
(4) Figures are annualized, using a 1979 test year.
(5) None specified.
(6) Figures are annualized for 1981, the additional revenue requested for 1980 is $180 million. Requested returns are based upon the method of regulation proposed by the Company in the February 19, 1980 Application which, for regulatory purposes, includes 50% of the total net income from the Saudi Arabian contract.

Major Components of the Bell Canada Group

Bell Canada Shareholder Statistics

December 31

Shareholders	1979	1978	1977	1976	1975
By holdings					
Common*					
1-99 shares	92,592	—	—	—	—
100-999 shares	121,881	—	—	—	—
1,000 shares and over	21,687	—	—	—	—
Total	236,160	209,233	205,267	207,588	215,227
Average number of shares per holder†	671	674	639	587	554
Preferred					
1-99 shares	14,062	15,982	20,311	24,438	27,653
100-999 shares	17,209	19,625	14,883	15,560	12,637
1,000 shares and over	1,782	2,016	1,460	1,569	1,160
Total	33,053	37,623	36,654	41,567	41,450
Average number of shares per holder	398	421	339	309	244
By location					
Common					
Canada	230,592	203,782	199,522	202,252	210,230
U.S.	4,640	4,521	4,784	4,337	3,948
Other foreign	928	930	961	999	1,049
Total	236,160	209,233	205,267	207,588	215,227
Preferred					
Canada	32,765	37,323	36,267	41,172	41,030
U.S.	173	177	217	203	209
Other foreign	115	123	170	192	211
Total	33,053	37,623	36,654	41,567	41,450

Shares	1979	1978	1977	1976	1975
By location					
Common†					
Canada(a)	151,517,667	133,178,946	123,322,854	117,851,550	116,731,080
U.S.	4,508,615	4,760,355	5,018,442	2,339,721	1,392,474
Other foreign	2,451,422	3,255,342	2,939,616	1,669,752	1,167,513
Total	158,477,704	141,194,643	131,280,912	121,861,023	119,291,067
Preferred					
Canada(a)	13,139,188	15,816,180	12,416,066	12,855,015	10,092,496
U.S.	21,393	23,450	20,139	19,369	17,893
Other foreign	4,711	4,912	12,553	10,409	12,947
Total	13,165,292	15,844,542	12,448,758	12,884,793	10,123,336

(a) Held by shareholders registered as residents of Canada.
*Categories of holdings reflect the three-for-one common share subdivision. Comparable data not available prior to 1979.
†Reflects the three-for-one common share subdivision.

Major Components of the Bell Canada Group

Bell Canada
Number of Shares Traded

	1979	1978	1977	1976	1975
Common shares†					
Montréal	5,488,326	5,036,481	6,353,955	4,808,409	4,001,442
Toronto	13,788,500	14,046,900	15,932,100	10,065,300	9,656,700
Vancouver	76,841	40,755	25,503	281,400	432,633
New York (a)	1,052,400	2,806,500	3,970,800	1,640,700	—
Total	20,406,067	21,930,636	26,282,358	16,795,809	14,090,775
$3.20 convertible preferred shares					
Montréal	862	2,791	5,100	15,550	14,915
Toronto	5,700	11,100	12,600	33,000	74,800
Vancouver	—	—	—	—	—
Total	6,562	13,891	17,700	48,550	89,715
$3.34 convertible preferred shares					
Montréal	617	1,140	3,904	9,565	11,975
Toronto	6,500	18,200	35,700	50,200	67,000
Vancouver	—	—	—	—	80,000
Total	7,117	19,340	39,604	59,765	158,975
$2.25 preferred shares					
Montréal	57,862	31,585	171,330	49,716	55,800
Toronto	63,100	133,000	343,600	117,500	121,700
Vancouver	—	—	18,400	—	—
Total	120,962	164,585	533,330	167,216	177,500
$4.23 convertible preferred shares					
Montréal	240	76,577	194,849	66,020	114,111
Toronto	22,300	441,800	297,400	335,000	421,600
Vancouver	—	—	5,600	10,200	175,300
Total	22,540	518,377	497,849	411,220	711,011
$2.28 convertible preferred shares					
Montréal	66,710	61,372	184,110	257,364	140,235
Toronto	303,100	600,600	1,220,800	835,000	353,500
Vancouver	950	200	11,300	17,300	93,340
Total	370,760	662,172	1,416,210	1,109,664	587,075
$1.80 preferred shares					
Montréal	81,056	161,042	97,440	49,742	—
Toronto	362,900	574,800	618,600	120,600	—
Vancouver	—	84,000	25	—	—
Total	443,956	819,842	716,065	170,342	—
$1.96 convertible preferred shares					
Montréal	105,285	345,196	—	—	—
Toronto	599,100	741,300	—	—	—
Vancouver	1,600	33,700	—	—	—
Total	705,985	1,120,196	—	—	—

(a) Trading commenced August 18, 1976.
†The number of shares traded in the years 1975 to 1978 and in the first quarter of 1979 has been adjusted to reflect the three-for-one subdivision of common shares.

Major Components of the Bell Canada Group

Bell Canada Market Prices per Share

	1979	1978	1977	1976	1975
Common shares†					
High	$23⅛	$21.88	$18.88	$17.04	$16.13
Low	18¾	17.33	15.42	14.29	13.58
Close (a)	20½	21.71	18.08	16.00	14.33
$3.20 convertible preferred shares					
High	$68	$64	$56⅛	$51	$48⅜
Low	56¾	52⅝	47½	43	40¾
Close (a)	60¼	63¾	53⅞	48¼	42½
$3.34 convertible preferred shares					
High	$67⅞	$65⅝	$56½	$51	$48⅛
Low	60¾	53	47	44¼	40⅞
Close (a)	62½	65⅝	55	45⅞	42½
$2.25 preferred shares					
High	$31½	$31½	$30½	$26¼	$29
Low	26	27¼	25¼	24¼	23¾
Close (a)	26¾	30	29¾	26	25¼
$4.23 convertible preferred shares					
High	$68⅞	$64½	$57	$52½	$54
Low	57¾	53¼	48½	46¾	43⅜
Close (a)	62	64¼	55½	49½	47⅝
$2.28 convertible preferred shares (b)					
High	$34½	$33	$30¼	$28	$26¾
Low	28¼	28⅝	26	24⅞	24¼
Close (a)	30¾	32½	30	26¾	25½
$1.80 preferred shares (c)					
High	$24¾	$24⅝	$23¾	$20¾	—
Low	20¼	21¾	20⅛	19⅜	—
Close (a)	21⅞	23⅛	22¾	20½	—
$1.96 convertible preferred shares (d)					
High	$28⅜	$28¼	—	—	—
Low	22⅞	25⅝	—	—	—
Close (a)	24⅝	27½	—	—	—

Source: Montréal Stock Exchange, Toronto Stock Exchange, Vancouver Stock Exchange.
(a) Based on closing price of the year on the Toronto Stock Exchange.
(b) Data starting in June of 1975.
(c) Data starting in October of 1976.
(d) Data starting in May of 1978.
†Market quotations for the years 1975 to 1978 and for the first quarter of 1979 have been adjusted to reflect the three-for-one subdivision of common shares.

Corporate Information

Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

Trustee for Bonds

Canada Permanent Trust Company

Trustees for Debentures

The Royal Trust Company

Morgan Guaranty Trust
Company of New York

Transfer Offices for Bonds and Debentures

The Royal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver
(For bonds and debentures issued in Canada only)

The Royal Trust Company
Montréal
(For bonds issued in the United States only)

The Royal Trust Company
Montréal
Morgan Guaranty Trust
Company of New York,
New York, N.Y.
(For debentures issued in the United States only)

Registrar for Stock

Montreal Trust Company
Montréal; Toronto;
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
Williams & Glyn's Registrars Limited
London, England
(For common shares only)

Listing of Stock

Common Shares and Preferred Shares:

Canada
Montréal, Toronto, Vancouver
Stock Exchanges

Common Shares:

Belgium
Brussels Stock Exchange

England
London Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Dusseldorf
Stock Exchanges

Switzerland
Zurich, Basle, Geneva
Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United States
New York Stock Exchange

Transfer Offices for Stock

Company Offices—
1050 Beaver Hall Hill
Montréal
393 University Ave.
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax;
Charlottetown; Saint John, N.B.;
Winnipeg; Regina; Calgary;
Vancouver

Morgan Guaranty Trust
Company of New York,
New York, N.Y.
The Royal Trust Company
London, England
(For common shares only)

For further information or additional copies, please write to:

The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montréal, Québec
H3C 3G4

The following publications are also a
able without charge, upon written re

Form 10-K

Bell Canada's Annual Report on
Form 10-K as filed with the Securitie
and Exchange Commission in the
United States.

Shareholder Dividend Reinvestment Plan

An outline of a dividend reinvestmen
stock purchase plan provided by the
Company for the benefit of common
shareholders.

Sur demande, le secrétaire de la com
gnie vous fera parvenir un exemplair
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